

Indiana Office of Management & Budget



Controls and Performance Audit

December 2012

This report is intended solely for the information and use of OMB, DOR and the State Budget Committee and is not intended to be, and should not be, used by any other party, with the exception of oversight agencies for the performance of their oversight responsibilities.

December 15, 2012

Mr. Adam Horst
Director
Office of Management & Budget
200 West Washington Street, Room 212
Indianapolis, IN 46204

Dear Director Horst:

Deloitte & Touche LLP (“Deloitte & Touche”) has performed a Controls and Performance Audit of the key business processes within the Indiana Department of Revenue (DOR or the “Organization”). The purpose of this report is to communicate the results of the Controls and Performance Audit observations and applicable recommendations.

In accordance with the June 21, 2012 services agreement and the Amendment dated September 27, 2012 between the Indiana Office of Management & Budget (OMB) and Deloitte & Touche, an understanding of DOR’s key business processes was gained and used to develop a Controls and Performance Audit universe; a risk model was then developed to help identify various risks facing DOR and those risks were assessed and prioritized areas were included in a proposed Controls and Performance Audit plan which was communicated to OMB in the Financial Operations Risk Assessment Report issued in August 2012. The Controls and Performance Audit was executed in accordance with that proposed plan and the results are presented herein.

Our services were performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA).

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We appreciate the cooperation received from management and staff of OMB and DOR during the performance of the Controls and Performance Audit.

Yours Truly,

Deloitte & Touche LLP

By: 
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Background

In May 2012, OMB embarked on performing an independent risk assessment and internal Controls and Performance Audit of DOR. This initiative related to concerns that arose over the Organization's information technology (IT) systems and financial operations after two significant financial errors were discovered.

DOR is the state entity that collects and accounts for the majority of general fund tax revenues for the State of Indiana (the "State"). DOR is responsible for assessing and collecting the taxes and transferring them into proper funds so that they may be utilized by the State and, when required, local governments as prescribed by statute. It is also responsible for managing taxpayer accounts and for generating reports that are utilized to distribute certain local revenues, such as local option income taxes (LOITs), food and beverage, auto rental, professional sports development areas, etc., back to local governments.

DOR has strategically focused its efforts on increasing customer satisfaction and serving its customer, the Indiana taxpayer. In recent years they streamlined operational areas, which resulted in more efficient returns processing and an enhanced taxpayer experience. Since 2008, DOR has significantly reduced the time frame for processing returns while also cutting the processing cost per return. With their focus primarily on processing taxes, support areas such as information systems management and financial accounting and reporting appear to have been a lower priority for the Organization. Without this same degree of focus, the control environment and importance of financial and IT controls were not as rigorous in preventing or detecting errors within the financial accounting systems.

Within the past year, DOR discovered two significant errors regarding corporate tax and LOIT distributions. Specifically, DOR discovered that \$320 million of corporate tax e-file payments were not transferred from a holding account, thereby overstating the account balance of one account while understating the balance of another. Additionally, DOR identified that \$206 million in LOITs were not distributed to local governments because programming changes related to new legislative rules were not thoroughly tested within the system and the allocation of the funds was not correctly computed. DOR has acknowledged these errors and is taking proactive measures to reclaim the trust of the taxpayers and the legislature.

As a result of DOR's challenges, a new Revenue Commissioner and Chief Financial Officer were hired in May 2012, soon followed by a new Chief Information Officer, two Deputy Controllers and a Strategic Transformation Initiatives Leader. Additionally, some supervisory and management staff have also turned over, with new individuals being placed into those positions. This new management team is focused on evaluating and correcting the identified errors while identifying other risks requiring remediation.

OMB initiated an independent and objective Risk Assessment along with a Controls and Performance Audit of DOR to analyze the circumstances and corrective actions necessary for the identified errors along with the identification of additional risks and concerns that may exist in DOR. OMB's expectation is that the final Controls and Performance Audit report will provide recommendations for improving IT and financial controls and other recommendations deemed

appropriate to include replacement of IT system(s), Organizational/structural changes, legislative changes, etc. As such, Deloitte & Touche was contracted to perform the requested services, starting with a risk assessment and continuing into the Controls and Performance Audit.

The risk assessment process identified and risk ranked eighteen key business processes for the Organization's performance audit universe. Nine key business processes were identified as high risk, eight were identified as medium risk, and one was identified as low risk. Furthermore, several general risk themes became apparent and relate to one of the following fundamental questions:

- Does the Organization have the right strategy and governance mechanisms in place to achieve its mission?
- Does the Organization have the right processes and technologies in place to support its strategies?
- Does the Organization have the right people in place to execute the processes and technologies in accordance with the Organization's expectations?

The Controls and Performance Audit further examined these risk themes along with the specific risks identified within the risk assessment and the ensuing report presents the results of this work.

Executive Summary

Overview

Deloitte & Touche performed a Controls and Performance Audit of the key business processes within DOR based on the initial risk assessment concluded in August 2012. The testing covered eighteen key business processes as well as the identified errors that were recently uncovered. The Controls and Performance Audit was directed toward determining whether the foundational elements of people, processes, technology and governance within the Organization are adequately utilized, efficiently designed and operating effectively.

A number of significant opportunities for improvements were identified which highlights the need for DOR to enhance their key business processes and supporting technologies to better serve the needs of the Organization and ultimately the Indiana taxpayer. The issues identified are an accumulation of events and decisions that have been made over several decades which contributed to a weak control environment that resulted in DOR's inability to prevent and detect errors such as the Corporate Tax and Local Income Tax errors. Furthermore, DOR does not have in place the technology systems necessary to support their core business functions resulting in a number of technology work arounds and manual processing that increases risk of errors being made and going undetected. A strong system of internal controls and supporting technologies must be in place for an organization to be able to maintain integrity and help ensure completeness and accuracy of their transactions.

The issues identified did not arise overnight; neither will they be fixed overnight. Many of the issues are complex and will require a significant investment of time and resources to address while others may be able to be addressed quickly. The task of evaluating, prioritizing, and remediating these issues will be great, especially in light of other competing priorities and sustaining day-to-day operations. While many within the State will be focused on wanting to see immediate and sustained results, it's important that the task be done diligently so as to truly create transformative change that drives value to Indiana taxpayers.

Report Layout

Our report is organized in five main sections. The **Background** section provides a look into the events that led to OMB hiring Deloitte & Touche to conduct the Risk Assessment and Controls and Performance Audit. The **Executive Summary** provides an overview of the challenges faced by DOR, the procedures performed, identified strengths exhibited by DOR, and the identified opportunities to improve. The **Scope and Methodology** section provides detail as to what processes were reviewed and what testing methods were utilized while the **Opportunities for Improvement** section discusses each of the significant issues identified. Finally, the **Appendix** provides a risk map of DOR's eighteen key business processes and subprocesses updated to reflect the risks for each at the conclusion of the Controls and Performance Audit.

Procedures Performed

Thinking of the known errors as symptoms, a top-down assessment was completed to diagnose root causes of these symptoms. This review began with a risk assessment focused on gaining an understanding of DOR's key business processes through interviews with key DOR personnel and review of relevant policies, procedures, and business process-related documentation. Once an understanding of key business processes was gained, DOR-specific risks were identified and combined with the inherent risks that are pervasive within revenue agencies and similar governmental organizations. An overall ranking of high, medium, or low risk was then assessed for each subprocess. These risk rankings were then captured on the Controls and Performance Audit Universe by color-coding each subprocess with its overall risk score (Refer to Appendix A – Updated Key Business Process Maps).

Utilizing the risk-ranked Controls and Performance Audit universe, a Controls and Performance Audit plan was developed which focused more attention on areas of high-to-medium risk within the Organization. As such, areas with high to medium risk were included in the audit plan for testing, including sample-based transaction testing in processes where transactions are performed. The area with predominately low risk was included in the Controls and Performance Audit plan but received a lower level of analysis than the riskier areas.

Special attention was given to the known errors that occurred in corporate tax and LOIT. Analysis of the identified distribution errors, including a walk-through of the processes to identify the past procedural breakdowns, and evaluation of management's remediation plans to identify whether risks have been properly mitigated was performed.

DOR leadership has begun to implement mitigation plans for certain risks that have been identified and these plans were also reviewed as part of the Controls and Performance Audit.

Summary of Strengths

DOR has enjoyed a reputation as an organization that was focused on its customer, the Indiana taxpayer. In recent years, they undertook efforts to streamline most of the operational areas, which resulted in more efficient returns processing and an enhanced taxpayer experience. As part of the conclusion of our Controls and Performance Audit, the risk ranking of the key business processes and subprocesses from the risk assessment was reviewed and updated. The processes were re-evaluated to incorporate any knowledge gained during the course of the assessment (Refer to Appendix A — Updated Key Business Process Maps). The following processes were found to be operating according to expectations and were categorized as low to moderate risk:

- Perform Front End Processing
- Perform Billing Activities
- Provide Taxpayer Assistance
- Perform Enforcement Activities
- Legal
- Taxpayer Advocacy

While these processes appear to be operating at a low-to-moderate level of risk, there is room for efficiency, effectiveness, and control improvements across the individual subprocesses.

Summary of Opportunities for Improvement

A number of significant opportunities for improvements were identified across the Organization which highlights the need for DOR to enhance their key businesses processes and supporting technologies to better serve the needs of the Organization and ultimately the Indiana taxpayer. Most of the issues identified were caused by systematic and organizational wide issues including an overall lack of internal controls and technology systems insufficient to support the core business functions of the Organization. The opportunities for improvement highlighted throughout the report have been summarized into the following categories:

- **Known and Identified Errors** provides an update on the two distribution errors made public earlier in the year and the results of the analysis performed to validate DOR's related adjustments. Additionally, this section explains DOR's remediation efforts and additional issues that will require analyses that extend beyond the scope and timing of the Controls and Performance Audit.
- **Organizational Wide Opportunities for Improvement** provides a number of opportunities that cross both the operational and infrastructure key business processes and if not addressed will have impact on the Organization's capabilities to administer and report revenue for Indiana State Government. Generally, these organizational wide observations relate to one of the following building blocks for the Organization: Strategy/Governance, Process, People, and Technology.

For additional detail on these items, refer to the "Opportunities for Improvement" section of this report.

Known and Identified Errors

Corporate e-check — Corporate e-check revenue of \$320 million was not appropriately transferred from the DOR Collections Fund, which is a DOR holding account, and recognized as revenue in general ledger tax funds. This publicized error was a result of the Returns Processing System ("RPS") not being coded correctly to identify corporate tax e-check payments that needed to be transferred from the collections fund to the appropriate tax funds in the general ledger. Although payments were properly applied to the taxpayer's account within RPS and deposited into State-owned bank accounts, coding requirements to create journal entry instructions for the transfer of revenue in the general ledger were not implemented in RPS. Due to the collections fund not being reconciled, large balances accumulated in the collection clearing fund between 2007 and 2011 and resulted in reduced revenue being recognized by the State. Since the error was identified, DOR has corrected the coding in RPS and completed journal entries to move the \$320 million in unapplied revenue to the appropriate general ledger tax fund accounts. Deloitte & Touche was able to analyze the prior period adjustments, supporting analysis, and performed transactional testing to determine that this issue has been addressed by DOR and that e-check payments are now being included in the general ledger properly.

LOIT — LOIT revenues of \$206 million were not reported and distributed appropriately in 2010 resulting in DOR having to make additional distributions to local counties in 2012. This publicized error was a result of estimated payments by individuals for county related taxes being reported as State general fund revenue rather than local individual county fund revenue within RPS. New legislation for individuals to report the estimated county tax payments and withholdings required an update to coding within RPS. This coding conflicted with previous dataset business rules within RPS resulting in the estimated payments not being captured correctly. OMB staff identified this issue as a result of annual trending and revenue reporting.

After reallocation of the county tax submissions within RPS from State general fund revenue to local individual tax county fund revenue, revenue distributions were recalculated and the appropriate

funds were distributed to the individual counties in April 2012. A sample of local counties were selected to validate whether January and July 2012 distributions were reasonably calculated, recorded in the general ledger accurately, and distributed to local counties. The prior period adjustments, adjusted report from RPS, recalculated distribution workbooks, and the redistributions to the local counties were analyzed to validate if the issue detailed above was addressed. The testing found that while the process for allocating the distributions is cumbersome and highly manual, the sampled distributions were calculated and distributed to the counties properly.

Reconciliation of Funds — A lack of timely reconciliations became a primary control deficiency identified when evaluating the two publicized errors. Because DOR was not performing timely reconciliations of various suspense and clearing accounts, balances were accumulating and errors were going undetected.

DOR is in the process of defining ownership and accountability and developing reconciliation policies and procedures which includes an emphasis on suspense and clearing accounts. DOR is reviewing the contents and the flow of the transactions into these accounts to determine whether revenue should be redirected to other funds to allow for an easier reconciliation process. DOR has now reconciled the collection fund through fiscal year 2012.

Unreconciled Accounts — In analyzing the previously identified errors, DOR identified a number of other potentially unreconciled and/or unbilled taxpayer accounts in RPS that require additional research and resolution. The amount of revenue involved with these accounts is immaterial; however, the discovery of unreconciled and/or unbilled accounts has indicated that there are additional processing issues within RPS which must be addressed to prevent the issue from recurring.

Approximately 55,000 unreconciled accounts were identified indicating a potential balance due to the State which may not have been timely billed to the taxpayer. Approximately 85% of these accounts are related to corporate payroll withholding taxes, known as Trust Taxes. DOR has identified multiple root causes for the failure of RPS to generate timely billings and is currently investigating each issue, developing remediation plans, billing accounts where appropriate and reconciling the remaining accounts.

Approximately 12,000 unreconciled accounts were identified indicating a potential balance due to the corporate taxpayers for overpayment of Trust Taxes. Approximately 2,880 of these accounts were identified as accounts where the corporate taxpayer has requested a refund; however, normal automated protocol within RPS was erroneously de-activated causing the refund request to remain unprocessed. DOR has identified the root cause of this issue and is implementing program changes within RPS to resolve it. The 2,880 refund requests are now being processed and the remaining accounts are being investigated to determine the accuracy of the account balance and the root cause of their exception status.

Organizational Wide Opportunities for Improvement

Strategy/Governance: DOR, under new leadership, has initiated several agency-wide strategies for better managing the financial results of the Organization. Broadly, these strategies are well defined and executive leadership has taken great strides to expand and own the goals of the Organization. However, the Organization as a whole has historically lacked the level of awareness necessary for an effective system of internal control and governance. Internal control awareness includes creating a culture where risks are fully understood and where preventive and detective controls are placed into operation to mitigate those risks. DOR has an opportunity to enhance the Organization's control culture by instituting a robust internal control management program as one of leadership's strategic improvement initiatives.

An effective internal controls management program begins with adoption of a controls framework to set expectations for control across the Organization, completion of process and control documentation, design and implementation of key preventative and detective controls across key business processes, communication of and training on control policies and expectations, and development of a control monitoring system that provides management with ongoing information as to whether controls are being executed as expected.

The control structure provided from a robust internal control management program can help DOR achieve the strategic and operational goals of the Organization. Controls developed should increase confidence in the ability of DOR to anticipate, prioritize, and overcome obstacles to the attainment of its goals, provide reasonable assurance regarding the achievement of specific business objectives such as reliability of financial management, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Process: There are a number of DOR processes that are not well defined or documented resulting in inconsistent application of procedures or failure of procedures to be performed. Additionally, controls are often misunderstood or are not executed and therefore important measures for preventing and detecting errors or safeguarding assets are not occurring.

Additionally, many of the Organization's processes are overly manual and not adequately supported by the Organization's information technology systems resulting in duplicative and intensive data entry. This increases the risk of errors being made and makes processing of transactions less efficient than they otherwise should be.

DOR management is aware of these issues and has begun to create new policies to guide the Organization. They also have begun to document their core processes and procedures across the Organization. Additionally, the Finance department is in the process of implementing procedures to regularly analyze financial results. A significant process area that DOR is focused on is the general lack of reconciliations of its funds and accounts and they are making progress towards implementing appropriate reconciliation processes to increase overall knowledge and transparency of their general ledger accounts.

A critical piece to remediating the process related issues will be to document control points within each process such that the risks of each process are known and that preventative and detective controls to mitigate these risks are placed appropriately throughout the processes. Additionally, streamlining of processes and automation of overly manual processes can help to enhance transaction processing across the Organization. In some cases, interfacing certain technologies together can significantly reduce the risk present in some of the processes.

Technology and Integrated Tax System: There are a number of IT key processes and technology controls, including IT strategy, IT knowledge transfer and training, change management, security and logging, system interfaces, and disaster recovery, which are not fully in place to effectively prevent or detect errors for IT operational, financial, and compliance issues.

DOR lacks the enabling technologies needed to process taxes in an integrated, efficient and effective manner. The Organization relies upon a number of standalone custom developed systems, spreadsheets and databases that were developed over many years to support core tax processes. While RPS processes a limited number of tax types and the majority of the collected tax dollars, many additional tax types are processed outside of the system in databases, spreadsheets and other systems. DOR's technical staff encounters daily challenges in maintaining aging, disparate technologies such as RPS, which was implemented in the mid 1990's, while at the same time being responsible for updating RPS to accommodate annual tax form and policy changes. RPS was not designed to serve as an integrated tax system. Architectural and functional limitations of RPS and other DOR legacy systems result in processing inefficiencies and the need for paper based and overly manual processes to fill process gaps.

Many revenue agencies have migrated from similar systems architectures to commercial off the shelf software integrated tax systems ("ITS"). ITS implementations are multi-year efforts. Even though an ITS that supports DOR's business process goals could help address many of DOR's processing issues in the longer term, shorter term process improvements, such as the recommendations within this report, are needed to mitigate the immediate risks and process gaps.

People: DOR underwent an extensive management change in May 2012 following the identification of the previously identified LOIT errors. New management is energetic and focused on building a core team of qualified individuals, especially in the areas of Finance and IT. DOR is in need of identifying the individuals with the appropriate qualifications, background and skill sets necessary to execute their new strategies. While this is not necessarily an issue of headcount, it is an issue of skill set and placing individuals into the optimal positions.

Management has developed a resource strategy that focuses on needs, headcount, positioning and alignment of its people. This strategy has begun to be implemented and will continue to develop as a priority. Specifically, DOR's Human Resource representative has begun an assessment of updating job descriptions organization-wide. However, this is not a full roles, responsibilities, and capabilities assessment which should be completed. Such an assessment would include an assessment of each individual, their day-to-day activities along with their career goals. From this assessment, individuals can be aligned to the tasks that best fits with their goals and knowledge, skills, and ability level. Training will need to be developed and/or enhanced to communicate expectations and to effectively equip individuals to carry out their responsibilities. The Organization's performance management processes will also need to be updated to reflect and measure individual performance against new expectations.

Lastly, succession plans will need to be established to plan for and manage turnover of key positions within the Organization. This will be an important part of the new resource strategy, so specialized skill sets and historical knowledge is retained. Documentation of policy, processes, and establishment of training programs will put the Organization in a much better place when key positions turnover. Additionally, hands on experience and prior leadership over core areas are critical and succession planning can help provide the continuity that is needed when turnover, planned or unplanned, occurs.

SUMMARY STATEMENT

A detail listing of the specific opportunities for improvement can be found in the body of this report, aligned by key business process as in the risk assessment. The opportunities for improvement include recommendations for management's consideration and an overall explanation of each process.

As indicated previously, the issues identified in this report are significant and did not arise overnight. Many are the result of long term systemic issues within the Organization that were unknown or that lacked the Organization's full understanding and/or attention. As these issues did not arise overnight, neither will they be fixed overnight. Many of the issues are complex and will require a significant investment of time and resources to address while others may be able to be addressed quickly. The task of evaluating these issues and prioritizing their remediation along with all of the other initiatives going on within the Organization will be great. While many within the State will be focused on wanting to see immediate and sustained results, it is important that the task be done diligently so as to truly create transformative change that drives value not only to DOR but to Indiana Taxpayers. The new Commissioner and his executive team have been focusing attention largely on correcting the known errors; the team has also made significant strides already within the Organization towards remediation of the root causes. We believe the leadership necessary to drive the transformation change that is needed is in place. What they need most now is the resources necessary to make the prescribed changes and the support of their Indiana stakeholders as they drive the Organization forward.

Scope and Methodology

Utilizing the risk-ranked Controls and Performance Audit universe identified within the risk assessment, a Controls and Performance Audit scope was developed to focus more extensive attention to the areas with high-to-medium risk within the Organization. As such, areas with high to medium risk were included in the audit plan for testing and review, including sample based transaction testing in processes where transactions are performed. The area with predominately low risk is included in the Controls and Performance Audit plan but received a lower level of review than the riskier areas.

Special attention was made to review the known errors that occurred in corporate tax and LOIT. Analysis of the identified distribution errors, including a walk-through of the processes to identify the past procedural breakdowns, and evaluation of management’s remediation plans to identify whether risks have been properly mitigated was performed. Analysis of remediation procedures implemented during the course of the Controls and Performance Audit was performed including reviews of implementation processes and the resulting outputs. Remediation results were compared to anticipated outcomes and the collaboration of affected parties was evaluated.

Level of Risk as defined by the August Risk Assessment	Process Description	Controls and Performance Audit Review
Low-Risk Processes	<ul style="list-style-type: none"> • Provide Taxpayer Assistance 	<ul style="list-style-type: none"> • Compared policies, procedures, and controls against leading practices • Identified opportunities for enhancement
Medium-Risk Processes	<ul style="list-style-type: none"> • Issue Refunds or Credits • Legal • Perform Billing Activities • Perform Enforcement Activities • Perform Front-End Processing • Process Receipts (Post Payments to Taxpayer Account) • Process Tax Return Data • Taxpayer Registration and Education 	<ul style="list-style-type: none"> • Compared policies, procedures, and controls against leading practices • Conducted a walk-through of process • Performed high-level tests of operating effectiveness • Identified and reviewed key reports, data sets, and analytics (i.e., reconciliations, trending, forecasts, etc.) for completeness, accuracy, and relevancy • Identified opportunities for enhancement • Identified preventative and detective controls • Selected and reviewed a sample from the testing population where transactions occur • Performed an analysis and walk-through of management’s remediation plans

Level of Risk as defined by the August Risk Assessment	Process Description	Controls and Performance Audit Review
High-Risk Processes	<ul style="list-style-type: none"> • Manage Financial Accounting and Reporting • Manage Organizational Design • Manage Information Technology • Manage Revenue Accounting and Distributions • Perform Collection Activities (Past-Due Items) • Perform Internal Audit • Perform Tax Administration and Analysis • Plan for and Manage the Organization • Report Administration 	<ul style="list-style-type: none"> • Compared policies, procedures, and controls against leading practices • Conducted a walk-through of process to review implementation • Identified and reviewed key reports, data sets, and analytics (i.e., reconciliations, trending, forecasts, etc.) for completeness, accuracy, and relevancy • Identified opportunities for enhancement • Identified preventative and detective controls • Performed detail tests of operating effectiveness • Selected and reviewed a sample from the testing population • Performed an analysis of the identified distribution errors, including a walk-through of the processes, and evaluation of management's remediation plans

Known errors were separately risk ranked based on remediation plans, remediation procedures implemented, and analysis of remediation outcomes. Procedures included those performed for the applicable processes affected by each error with additional procedures performed to address the unique circumstances of each error.

Level of Risk as defined by the August Risk Assessment	Error Description	Controls and Performance Audit Review
Medium	<ul style="list-style-type: none"> • Corporate E-Check 	<ul style="list-style-type: none"> • Performed analysis of correcting journal entries • Performed analysis of returns processing system coding correction
High	<ul style="list-style-type: none"> • LOIT 	<ul style="list-style-type: none"> • Compared policies, procedures, and controls against leading practices • Conducted a walk-through of process • Performed high-level tests of operating effectiveness • Identified and reviewed key reports, data sets, and analytics (i.e., reconciliations, trending, forecasts, etc.) for completeness, accuracy, and relevancy • Identified opportunities for enhancement • Identified preventative and detective controls

Controls and Performance Audit Methodology

There were four stages within the Controls and Performance Audit approach.

Stage I — Controls and Performance Audit planning

Controls and Performance Audit planning includes developing audit procedures for the key business processes. At a high level, these procedures include the following:

- Identified the approach for assessing design and operational effectiveness of key business processes identified in the risk assessment
- Prepared Controls and Performance Audit programs for each of the key business processes, including test plans
- Confirmed existence and availability of documentation
- Developed timeline for performing the underlying procedures for each of the key business processes
- Identified resources to perform procedures, including the use of subject matter specialists
- Identified the level of effort, established budget, and updated the Statement of Work, as appropriate

Stage II — Evaluate design

Evaluate the design of DOR strategy and governance as it relates to process, technology, and people. At a high level, these procedures include the following:

- Performed an analysis of the identified distribution errors, including a walk-through of the processes to identify the past procedural breakdowns, evaluation of management's remediation plans to identify if risks have been properly mitigated and testing of the mitigating controls
- Identified preventative and detective controls in DOR's key business processes
- Compared these controls against leading practices within the industry and of similar State organizations to identify gaps and opportunities for improvement
- Assessed the entity-level controls, which includes the control awareness, management philosophy, operating style, employee values, and general "tone at the top" of the Organization
- Assessed at a high level whether DOR's organizational structure is sufficient and ties to organizational strategy and operations
- Assessed at a high level whether sufficient policies and procedures to guide daily operations have been documented and communicated to staff
- Assessed at a high level whether DOR has staff with the proper level of knowledge, skills, and abilities necessary to execute the Organization's responsibilities and are held accountable for following DOR policies and procedures
- Assessed the design of processes for identifying, escalating, and mitigating organizational risks
- Ascertained whether policies, procedures, and key controls have been implemented into daily operations
- Ascertained whether IT systems (e.g., RPS, PeopleSoft, Data Warehouse, INtax), processes, and related components are sufficient to address the risks in support of DOR operations, accounting and reporting
- Identified and reviewed key reports, data sets, and analytics (i.e., reconciliations, trending, forecasts, etc.) for completeness, accuracy, and relevancy
- Assessed DOR's internal audit methodology and approach
- Identified deficiencies in design and developed recommendations for improvement

Stage III — Test of operational effectiveness

Testing of operational effectiveness includes the evaluation of whether key policies, procedures, and controls are operating with sufficient effectiveness to provide reasonable confirmation that the Organization's objectives are being met. These procedures include the following:

- Performed testing of operating effectiveness for a defined period of time
- Documented tests of the operating effectiveness of key controls, evidence obtained, results of tests, and conclusions within working papers
- Identified deficiencies in operating effectiveness, highlighting critical issues and common themes across the Organization
- Assessed effect of control deficiencies on other key control activities and business processes
- Developed recommendations for enhancing the effectiveness of policies, procedures, and controls

Stage IV — Prepare and issue audit report

Reporting includes the communication of the results to OMB, DOR management, and the State Budget Committee. The procedures include the following:

- Defined the format, structure, and content of the final report

Opportunities for Improvement

The goal of the following opportunities is to enhance and improve the overall effectiveness of DOR processes and to strengthen its internal control environment, such that the strategic goals of the DOR can be efficiently and effectively met. We have categorized the opportunities for improvement as such:

- **Known and Identified Errors**
- **Organizational Wide Opportunities for Improvement**
- **Key Business Process Opportunities for Improvement**

Known and Identified errors provides an update on the two distribution errors made public earlier in the year and the results of Deloitte's analysis of DOR's related adjustments and remediation efforts. In addition, identified issues related to account reconciliations and unreconciled accounts are presented.

Organizational Wide Opportunities for Improvement include opportunities for improvement that result from pervasive issues crossing over a number of business processes that if not addressed will significantly impact the Organization's ability to effectively administer and report revenue for the State of Indiana.

Key Business Process Opportunities for Improvement outline the specific opportunities for improvement that exist in each of the Organization's eighteen key business processes. Operational Opportunities for Improvement are those within the DOR operational processes that relate to the key mission of collecting and accounting for taxes (returns processing, collections, enforcement, taxpayer advocacy, etc.). Infrastructure Business Processes Opportunities for Improvement are opportunities for improvement within the DOR infrastructure processes that relate to the support and management of the Organization (information systems, financial reporting, human resources, etc.). Due to the number of issues identified, a tabular format is being used to clearly outline the five elements of each opportunity. Specifically:

- **Condition:** The condition column defines the specific opportunity for improvement that was identified
- **Cause:** The cause column provides an explanation as to why this issue may have occurred
- **Impact:** The impact column provides an explanation of the potential impact this issue may have on the Organization
- **Criteria:** The criteria column provides an explanation of how the control or activity should function
- **Recommendation:** The recommendation column provides reasonable and actionable recommendations for correcting the identified issue

The recommendations being provided will support DOR's new organizational strategy to increase the quality and timeliness of financial information, improve the efficiency and effectiveness of the business processes, and instill discipline and accountability across the Organization. DOR's ongoing remediation efforts related to each opportunity for improvement are also detailed in the following sections recognizing that most of these efforts will continue beyond the scope and timing of the Controls and Performance Audit.

Below is an update on the two distribution errors made public earlier in the year and the results of the analysis performed to validate DOR's related adjustments. Additionally, this section explains DOR remediation efforts and additional issues that will require analyses that extend beyond the scope and timing of this Controls and Performance Audit.

Known and Identified Errors

Corporate e-check

Corporate e-check revenue in the amount of \$320 million was not appropriately transferred from the DOR collections fund (a clearing account) and recognized as revenue in general ledger tax funds. This publicized error was a result of RPS not being coded correctly to identify corporate tax e-check payments that needed to be transferred from the collections fund to the appropriate tax funds in the general ledger. Although payments were properly applied to the taxpayer's account within RPS and deposited into State owned bank accounts, coding requirements to create journal entry instructions for the transfer of revenue in the general ledger were not implemented in RPS. Due to the collections fund not being reconciled, large balances accumulated in the collection clearing fund between 2007 and 2011 and resulted in reduced revenue being recognized by the State. Since the error was identified, DOR has indicated that the coding in RPS has been corrected and completed journal entries to move the \$320 million in unapplied revenue to the appropriate general ledger tax fund accounts. Deloitte & Touche was able to analyze the prior period adjustments, supporting analysis, and performed transactional testing to determine that this issue has been addressed by DOR and that e-check payments are now being included in the general ledger.

Local Option Income Tax

LOIT revenues in the amount of \$206 million were not reported during 2010 and required DOR to make additional distributions to local counties in 2012. This publicized error was a result of estimated payments by individuals for county tax being reported as State general fund revenue instead of local individual county fund revenue within RPS. New legislation for individuals to report the estimated county tax payments and withholdings required an update to coding within RPS. This coding conflicted with previous dataset business rules within RPS and the estimated payments were not captured correctly. OMB staff identified this issue as a result of annual trending and revenue reporting.

After reallocating the county tax submissions within RPS from State general fund revenue to local individual tax county fund revenue, revenue distributions were recalculated and the appropriate funds were distributed to the individual counties in April 2012. A sample of local counties were selected to validate whether January and July 2012 distributions were reasonably calculated, recorded in the general ledger accurately, and distributed to local counties. The prior period adjustments, adjusted report from RPS, recalculated distribution workbooks, and the redistributions to the local counties were analyzed to validate if the issue detailed above was addressed. Further, the prior period adjustments, adjusted report from RPS, recalculated distribution workbooks, and redistribution check payments to the local counties were analyzed to validate if the issue detailed above was addressed. The testing found that while the process for allocating the distributions is cumbersome and highly manual, the sampled distributions were calculated and distributed to the counties properly. Additionally, DOR has implemented other remediation efforts such as a quality testing environment built by the IT department to review coding requirements implemented within RPS annually.

Reconciliations of Funds

The lack of timely reconciliations became a primary control deficiency identified when evaluating the two publicized errors. DOR was not performing timely reconciliations related to the suspense and clearing accounts. Reconciliation challenges include the research of historical transactions that have created uncleared reconciling items and the lack of policies and procedures to review and analyze suspense and clearing accounts. Historically, these accounts have had limited restrictions as to what should be entered, who has access, and who has the responsibility to clear the amounts.

DOR is in the process of developing reconciliation policies and procedures which includes an emphasis on suspense and clearing accounts. DOR is reviewing the contents and the flow of the transactions into these accounts to determine whether revenue should be redirected to other funds to allow for an easier reconciliation process. DOR has completed reconciliations of the collection fund through fiscal year 2012.

Various suspense and clearing accounts were not regularly reconciled over an extensive period of time and several of these will require DOR to continue current analysis and research to reconcile the balances that extend beyond the scope and timing of this Controls and Performance Audit.

Collection Fund

As noted previously, the Collections Fund account has been reconciled through fiscal year end 2012. During the course of completing this reconciliation, DOR identified additional errors dating back to 2001 which resulted in prior year tax revenues being understated. The net impact was the recognition of additional tax revenue of \$56 million (\$32 million for fiscal years prior to 2012 and \$24 million for fiscal year 2012). Similar to the corporate e-check error, the root cause of these errors was the lack of RPS coding requirements to create journal entry instructions for the transfer of transactional activity to the general ledger. DOR has completed journal entries to properly reflect the transactions to the appropriate general ledger fund accounts and has made the appropriate RPS coding changes to properly record transactions in the future.

User Acceptance Testing (UAT) was implemented to address the RPS coding changes needed to produce journal entry instructions to reflect the appropriate transactional activity within the general ledger.

Other General Ledger Clearing Funds

Additionally, Deloitte & Touche noted a number of clearing funds within the general ledger with reported balances at year-end when balances should net to zero. It was determined that these accounts have never been reconciled nor have they been monitored. DOR, OMB, and Auditor of State (AOS) are in the process of researching the balances to perform the first reconciliation of these funds. Preliminary analysis suggests that these balances may be comprised of timing differences, inaccurate recording of distributions, and known calculation errors within the general ledger. Although, various reasoning has been provided for these balances; research will be ongoing and extend beyond the scope and timing of the Controls and Performance Audit to determine the actual cause and required corrective action.

A formal reconciliation should be performed to identify the appropriate adjustments needed to net these clearing funds to zero. Formal adjusting journal entries will need to be prepared and approved and updated within the general ledger.

Unreconciled Accounts

In analyzing the previously identified errors, DOR identified a number of other potentially unreconciled and/or unbilled taxpayer accounts in RPS that require additional research and resolution. The amount of revenue involved with these accounts is immaterial; however, the discovery of these accounts has indicated that there are additional processing issues within RPS which must be addressed to prevent the issue from recurring.

Approximately 55,000 unreconciled accounts were identified indicating a potential balance due which may not have been timely billed to the taxpayer. Approximately 85% of these accounts are related to corporate payroll withholding taxes, known as Trust Taxes. DOR has identified multiple root causes for the failure of RPS to generate these timely billings and is currently investigating these issues, developing remediation plans, billing accounts where appropriate and reconciling the remaining accounts.

Approximately 12,000 accounts were identified indicating a potential overpayment of Trust Taxes. Approximately, 2,880 accounts were identified as accounts where the corporate taxpayer had requested a refund but the refund has not yet been processed because the normal automated protocol within RPS was erroneously de-activated causing the refund request to remain unprocessed. DOR has identified the root cause of this issue and is implementing program changes to resolve it. The 2,880 refund requests are now being processed and the remaining accounts are being investigated to determine the accuracy of the account balance and the root cause of their exception status.

DOR should research and identify causes of the unreconciled accounts to determine how each account should be corrected. With new requirements for corporate taxpayers to use the INTax filing system in 2013, there will be a significant increase in taxpayers who will be able to view their tax information as it is reported in RPS. With a significant number of taxpayers whose information is unreconciled in RPS, DOR is at risk of a substantial increase in taxpayer inquiries and concern, and ultimately a negative public perception if these accounts are not corrected timely.

Organizational Wide Opportunities for Improvement

Below are the Organizational wide opportunities for improvement that are pervasive issues through the key business processes and if not addressed will have impact on the Organization's capabilities to administer and report revenue for Indiana State Government.

Control Environment

DOR's prior control environment lacked sufficient control and accountability mechanisms necessary to support the complex operations administered by the Organization. We found that most processes were not documented, internal controls were misunderstood or not in place, trainings on importance of controls did not exist, and mechanisms to monitor that processes and controls were being executed as designed did not exist. As indicated in the risk assessment, the Organization seemed much more focused on efficiency of tax processing than they were on ensuring a strong system of control and accountability over taxpayer funds.

The new Commissioner has begun to address the many outstanding issues confronting the Organization's control environment. He has put in place an executive team to identify key areas requiring change and is making changes to the Organization as the specific needs are identified and solutions are developed. The Organization has begun updating process documentation and enhancing controls as it investigates various issues. As the Organization continues its efforts, it will be important to take a more holistic approach to enhancing the control environment which includes establishing a robust internal control management program. This program begins with adoption of a controls framework to set expectations for control across the Organization, completion of process and control documentation, design and implementation of key preventative and detective controls across key business processes, communication and training on control policies and expectations, and development of a control monitoring system that provides management with ongoing information as to whether controls are being executed as expected.

The control structure provided from a robust internal control management program can help DOR achieve the strategic and operational goals of the Organization. Controls developed should increase confidence in the ability of DOR to anticipate, prioritize, and overcome obstacles to the attainment of its goals, provide reasonable assurance regarding the achievement of specific business objectives such as reliability of financial management, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Integrated Tax System

DOR relies upon a number of standalone custom systems, spreadsheets and databases that were developed over time to support core tax processes. While RPS, which was implemented in the mid 1990's, processes a limited number of the tax types, it does process the majority of the funds collected by DOR. Many of the other tax types are processed outside of the RPS system. DOR's technical staff encounters daily challenges in maintaining aging, disparate technologies such as RPS while at the same time being responsible for updating RPS to accommodate annual tax form and policy changes. RPS was not designed to serve as an ITS. As a result, a number of RPS-related issues were found that contribute significantly to the Organization's challenges. Specifically:

- Special taxes (e.g., cigarettes, aeronautics) are processed in multiple systems outside of RPS including access databases and spreadsheets
- Nonintegrated view of taxpayer data to capture registered taxpayers and monitor taxpayer liabilities
- Users of RPS have the ability to overwrite tax return data which results in the inability to view the entire change history of a return
- Audit trails for taxpayer return processing and payment posting transactions do not exist in RPS
- RPS lacks functionality to support the complexity of tax revenue accounting operations; therefore, excessive usage of manual spreadsheets and access databases to perform required tasks is required
- Revenue accounting and distribution is performed within multiple spreadsheets owned by multiple agencies; test distributions and analysis are not performed within DOR
- There is no interface between the State's general ledger and RPS and reconciliations are not consistently performed between the two systems; therefore, manual manipulation of RPS data must take place prior to entry of revenue transactions into the general ledger
- RPS does not generate exceptions for suspended payments consistently which results in suboptimal processing of unallocated payments
- Due to RPS' complex design, it is difficult to consistently and accurately extract data, decreasing the integrity of data quality
- The archaic coding used within RPS has led to the inaccurate reporting of a significant amount of revenue, as previously reported

In summary, architectural and functional limitations of RPS and other DOR legacy systems result in processing inefficiencies and the need for paper-based and manual processes to fill process gaps. Many revenue agencies have migrated away from similar systems architectures to commercial off-the-shelf software ITS. ITS implementations are multiyear efforts. Even though an ITS that supports DOR's business process goals could help address many of DOR's processing issues in the longer term, short-term process improvements such as the ones embedded in the recommendations within this report are needed to mitigate the issues listed above.

Key Operational Business Process Opportunities for Improvement

Below are the DOR-specific observations for the key operational business processes. Operational processes, as used here, are those areas that run the day-to-day business of the Organization and support the key mission of collecting and accounting for taxes.

Taxpayer Registration and Education

Taxpayer Registration and Education process was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR's capabilities to register individual and business taxpayers, monitor licensing and bonding requirements, maintain accurate and complete taxpayer data, design and maintain forms and procedures for registration, and provide information resources for taxpayers.

The taxpayer registration process does not fall under any particular process business owner and is a combination of many business process owners interacting across the agency. Overall, it was noted that DOR has a process in place that allows for most information to be processed electronically minimizing opportunities for human error. However, DOR does not have an ITS that holds taxpayer information across tax types and information management procedures are ineffective. Additionally there is a lack of controls within the new Registered Retail Merchant Certificate (RRMC) registration process that allow taxpayers with outstanding liabilities or suspended RRMCs to still obtain new RRMCs.

Below are four detailed observations and recommendations that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the taxpayer registration and education process:

Condition	Cause	Impact	Criteria	Recommendation
<p>Taxpayers with invalid RRMC and/or outstanding liabilities are able to obtain new certificates</p>	<p>New business registration process is not effective in screening out unqualified applicants</p>	<p>Ability of taxpayers to continue operating (either under current TIN or newly obtained TIN) without fulfilling tax obligations may result in delays in collection or accounts not collected</p> <p>Risk of revenue loss</p>	<p>Taxpayer registration data (including address, co-registrants, etc.) is checked against past-due taxpayer data</p>	<p>DOR should improve the new business screening process by cross-checking the new applicant information against a more robust set of taxpayer liability information. This will minimize the extent to which they are identifying businesses with past due obligations receiving new RRMCs</p>
<p>Taxpayer Personal Identifiable information (PII) has been misread (e.g., social security numbers) resulting in the creation of duplicate taxpayer accounts</p>	<p>Information management procedures does not have a defined process for handling sensitive information</p>	<p>If registration data is not entered correctly, subsequent invoicing/assessments errors may occur. For instance, citizens may be charged an incorrect rate or invoices may be sent to the wrong address or wrong rates applied based on demographic information entered. Such errors may result in inaccurate revenue recognition and/or uncollectible accounts receivable</p>	<p>Invoices are checked against citizen data, verification of proper billing rates is performed on invoices, and mathematical accuracy of invoices is checked. Newly created taxpayer accounts are not created without cross checking against existing taxpayer account information</p>	<p>DOR should develop procedures that call for routine checks of newly created taxpayer accounts to ensure that the RPS system remains clean and is not cluttered with unnecessary accounts</p>
<p>Currently, there is no formalized process to identify nonfiling, unregistered taxpayers. The process of identifying noncompliant taxpayers is not readily traceable within the system. There are no automated reports available to capture this information or automated flagging within key DOR systems. Queries are run for only new businesses and their related liabilities 60-90 days after entry into RPS</p>	<p>Procedures and available technology do not allow for effective taxpayer discovery of nonregistered taxpayers</p>	<p>There is risk of revenue loss if management does not monitor businesses that are licensed to collect revenue on behalf of the government (e.g., motor fuel distributors, alcohol and tobacco vendors, inspection facilities, etc.)</p>	<p>Collection procedures established by management for overdue accounts are performed as intended</p>	<p>DOR needs technology that allows for the RPS system to crosscheck against multiple other State agency accounts (ex. Dept. of Workforce Development or Bureau of Motor Vehicles) so that they may be able to locate individuals who are not in the RPS system, that should be, but have not filed</p>
<p>DOR employees are unable to see a complete view of individual taxpayer or a business' tax liability</p>	<p>Lack of an ITS that allows for single view of liabilities associated with individual taxpayer or business</p>	<p>Taxpayers and business have to make multiple calls and be rotated from department to department for a complete view of their tax burden, which may not turn out to be accurate because of time lags in the recording of different tax types</p>	<p>ITS includes taxpayer information including tax liabilities, audit results, payment plan history, etc.</p>	<p>DOR should enhance or acquire an ITS that allows them to refer to a single source for complete taxpayer information</p>

Perform Front-End Processing

Perform Front-End Processing was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to receive tax return documents and tax payments and post tax data to RPS and the general ledger.

Deloitte & Touche performed a walkthrough of DOR’s returns processing center. Processes and procedures were identified and documented for mail intake, mail sorting, mail opening, document sorting, returns and document scanning, check scanning and imaging, and document storage. It was noted that return documentation is opened and batched according to specific guidelines that encourage and allow for easy retrieval when items need to be researched. In addition, the returns processing center collaborates with taxpayer administration to determine the most effective way to organize batched documentation.

Deloitte & Touche assessed documentation created by finance (cashiers) through the processes they complete to reconcile deposits to the bank and postings to the general ledger. Payment information is received by finance in various formats that cannot be directly loaded to the general ledger leading to a number of manual entry processes using excel spreadsheets. The finance (cashiers) department spends significant time reviewing hard copy and manual data to identify errors in general ledger posting. While other departments within DOR have embraced and utilize new technology, cashiers continue to use manual processes and procedures. Opportunities exist to utilize additional general ledger functions to eliminate much of the manual data entry process.

Additionally, an assessment was performed on a series of transactions related to the major tax types administered by DOR. Due to the lack of a unique identifier following a transaction through RPS and other standalone systems and the manual intervention required to post journal entries to the general ledger, it is difficult to follow the audit trail of a transaction. Data must be obtained from multiple sources to verify transaction details at each step of the process. DOR has started initiatives to create reports into excel format and has developed macros in existing excel worksheets to eliminate some of the manual entry processes and store all of the payment locator numbers (PLN) associated with journal entries in the data warehouse to immediately identify the detail that supports each journal entry.

Below are three detailed observations and recommendations noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Perform Front-End Processing process:

Condition	Cause	Impact	Criteria	Recommendation
DOR lacks a complete audit trail that follows payments from receipt to posting in the general ledger	RPS is not a fully ITS that incorporates tax types; special taxes are processed outside of RPS	Accounts cannot be easily reconciled	Unusual items and exceptions in analyses and reconciliations are documented upon identification	DOR needs a returns processing system that can manipulate data without manual intervention and be directly interfaced with general ledger
DOR receives payment information from multiple sources that is submitted in inconsistent formats	RPS is not interfaced with the general ledger	Manual processes and procedures allow for data entry errors that are not easily identified	Resolution and treatment of unusual items identified are documented and reviewed independently for appropriateness on a timely basis	General ledger accounts should be reconciled with RPS balances
Cashiers utilize excel spreadsheets through a manual data entry process that			Management reviews resolution of items on a regular basis	

Condition	Cause	Impact	Criteria	Recommendation
<p>summarizes payment data</p> <p>Comprehensive documentation to support entries to the general ledger is not maintained</p>				
<p>Payment locator numbers (PLN) are not unique and inhibit account reconciliation</p> <p>Payments received by DOR that consist of allocations for multiple taxes do not have unique identifiers for each tax payment</p> <p>Payments received from collection agencies for multiple taxpayers do not have a unique payment identifier for each taxpayer</p>	<p>RPS is coded to assign PLNs to the payment received and does not have a unique identifier to allow DOR to track the allocation of the payment</p>	<p>Accounts cannot be easily reconciled</p> <p>Transactions are not easily reconciled between RPS and general ledger</p>	<p>General ledger balances are reconciled to the accounts receivable subsidiary ledger and differences are resolved in a timely manner</p>	<p>Payments should be coded to allow unique identification for the allocation of payments to various taxpayers and/or tax types</p>
<p>Unable to obtain all taxpayer information from one source for selected transactions</p> <p>Unable to trace 74% of selected transactions from payment received to posting in general ledger</p>	<p>DOR utilizes multiple systems for the processing of Special Taxes</p> <p>Lack of a unique identifier that remains with a transaction from individual special tax systems, RPS, and general ledger</p>	<p>Transactions are not easily reconciled between RPS, the Special Tax systems and general ledger</p> <p>Information communicated to the taxpayer and viewed by DOR may not be complete and accurate if sources are not maintained to reflect business activity</p>	<p>Financial reporting and related application and information systems are reliable</p>	<p>Process tax types within one centralized system</p> <p>Incorporate a unique identifier that would remain with a transaction from RPS into general ledger</p>

Process Tax Return Data

Process Tax Return Data was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to process tax return data within the returns processing system.

Deloitte & Touche identified and documented the processes and procedures used by RPS and customer services departments to analyze and process tax return data. Emphasis was placed on the processing of exception items (suspended Items and PRIs). It was noted that exception item processing is well organized among DOR staff with efforts focused on utilizing downtime outside of busy seasons for special and research projects. Exception item reports are pulled daily to notify management of new items that need to be assigned to staff. Reports are also generated for exception items by tax type and form giving totals for each exception item type by month for aging purposes. This allows management to determine if exception items are reviewed in a timely manner. Items that result in corrections to taxpayer accounts are to be documented with notes within RPS in order to maintain an audit trail of activity on the account; however, there are no rules in RPS dictating format or content of notes and there is no assurance that notes are sufficient.

Below are three detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Process Tax Return Data process:

Condition	Cause	Impact	Criteria	Recommendation
<p>Exception items are not consistently resolved by DOR</p> <p>RPS does not consistently generate PRIs as intended</p> <p>Exception items and the related taxpayer accounts are not always processed accurately by DOR staff</p>	<p>Coding changes in RPS have incorrectly led to the removal of exception flags</p> <p>Some employees have not received the correct training</p> <p>Processed exception items are not monitored or reviewed consistently</p>	<p>Taxpayer balances in RPS may not be accurate</p>	<p>RPS/system parameters and coding is in place and tested; parameters accurately dictate the proper identification of exception items</p> <p>Tax return data is reviewed to determine whether taxpayer accounts are accurately updated and data is transferred to RPS</p>	<p>RPS coding related to the generation of exception items should be reviewed to determine whether business rules are sufficient and operating as intended</p> <p>The results of processed exception items should be reviewed by management</p>
<p>Correspondence generated by DOR is not consistently prepared across the Organization</p> <p>Customer service and tax administration utilizes standard form letters that are reviewed and approved by public relations</p> <p>Refund letters are created by DOR employees as needed and receive little to no review</p>	<p>Each department within DOR manages their own process for generating correspondence</p>	<p>Taxpayers may receive correspondence with erroneous information resulting in a negative perception of DOR</p>	<p>Taxpayers receive consistent communications from each department within DOR</p>	<p>Correspondence generated by DOR should be consistent throughout the Organization and be approved by public relations</p>
<p>Accounts for each tax type are not consistently reviewed to determine whether return data is processed accurately in RPS to dictate proper placement of payments in the general ledger</p> <p>Clearing and suspense accounts are not consistently reconciled to assure suspended transactions are properly resolved</p>	<p>Account reconciliation policies and procedures have not been consistently applied across the Organization</p> <p>DOR did not adequately prepare for the State of Indiana’s transition to the PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and</p>	<p>Incorrect balances in both the general ledger and RPS may not be identified</p>	<p>Unusual items and exceptions in analyses and reconciliations are documented upon identification</p> <p>Resolution and treatment of unusual items identified are documented and reviewed independently for</p>	<p>General ledger accounts should be reconciled with RPS balances</p>

Condition	Cause	Impact	Criteria	Recommendation
	available capabilities are not fully utilized		appropriateness on a timely basis	

Process Receipts

Process Receipts was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to process tax payment data within the returns processing system.

Deloitte & Touche identified and documented the processes and procedures used by RPS to analyze and process payment information. RPS analyzes payment information daily and accumulates the data until the weekly voucher commit report is generated. The voucher commit report provides finance (cashiers) instructions on the proper placement of funds in the general ledger and directs transfers that are completed via journal voucher entries. While the voucher commit report could be generated daily, finance (cashiers) requests the report once per week to reduce the number of manual entries they complete to post the data into the general ledger.

Below are three detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the process receipts process:

Condition	Cause	Impact	Criteria	Recommendation
<p>Unallocated payments are processed inconsistently throughout the agency</p> <p>Unallocated check payments are not entered into the RPS suspense module while Electronic Funds Transfer (EFT) payments are entered</p> <p>Unallocated check payments are scrubbed and escheated to the State’s unclaimed property according to a specific timeline while EFT payments do not follow a formal review process</p> <p>Both unallocated check and EFT payments are not formally monitored or reconciled to the suspense general ledger</p>	<p>EFT and check payment processes continue to be separated consistent with industry practices in place when EFT payments were initiated</p> <p>Account reconciliation policies and procedures have not been consistently applied across the Organization</p>	<p>Improper management of unallocated payments may lead to inaccurate taxpayer accounts and reduced revenues</p>	<p>Unallocated payments are monitored and reconciled on a regular basis</p>	<p>Unallocated payments should be processed and monitored consistently with all unallocated payments entered into the suspense module of RPS</p> <p>Unallocated payments that cannot be identified with an Indiana taxpayer should be escheated to the State as unclaimed property according to unclaimed property guidelines</p> <p>Suspense general ledger accounts should be reconciled to the balances in the RPS suspense module on a monthly basis</p>
<p>Opportunities exist to improve the processes and procedures surrounding returned items</p> <p>Returned payments, i.e. NSF checks, are manually posted to the taxpayer account rather than posted automatically with electronic file data received from the banks</p> <p>Returned item fees incurred by the State are not passed along to the taxpayer</p>	<p>Returned item information is received from the Treasurer’s office in a hard copy format</p> <p>RPS is not coded to allocate returned item fees to taxpayer accounts</p>	<p>Manual processing may lead to data entry errors and inaccurate taxpayer balances</p> <p>The State Treasurer’s office is incurring additional expense by absorbing returned item fees</p>	<p>Returned items are accurately reflected in the taxpayer’s account within RPS</p>	<p>DOR should explore opportunities to receive electronic files from the banks and automate the process of updating RPS with returned items</p> <p>DOR should adopt procedures to charge returned item fees to the taxpayer</p>
<p>Accounts for each tax type are not consistently reviewed to determine whether return data is processed accurately in RPS to dictate proper placement of payments in the general ledger</p>	<p>Account reconciliation policies and procedures have not been consistently applied across the Organization</p>	<p>Incorrect balances in both the general ledger and RPS may not be identified</p>	<p>Unusual items and exceptions in analyses and reconciliations are documented upon</p>	<p>General ledger accounts should be reconciled with RPS balances</p>

Condition	Cause	Impact	Criteria	Recommendation
Clearing and suspense accounts are not consistently reconciled to assure suspended transactions are properly resolved	DOR did not adequately prepare for the State of Indiana's transition to the PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized		identification Resolution and treatment of unusual items identified are documented and reviewed independently for appropriateness on a timely basis	

Perform Billing Activities

Perform Billing Activities was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to identify taxpayers with balances owed and bill taxpayers appropriately.

Deloitte & Touche identified and documented the processes and procedures utilized by DOR to identify taxpayers with liabilities owed and generate billing notices. It was determined that initial billing is an automated process performed within RPS.

Issues discovered through an analysis of the unbilled taxpayer liabilities errors indicate opportunities exist for taxpayer liabilities to be managed inaccurately based on RPS limitations. Many special taxes are housed outside of RPS and there is no interface between special tax standalone systems and RPS. In addition, tax data fields in RPS can be adjusted by any user with the ability to maintain accounts without formal reviews or monitoring.

Below is one detailed observation and recommendation noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Perform Billing Activities process:

Condition	Cause	Impact	Criteria	Recommendation
<p>Taxpayer bills are not generated in coordination with current legislation that allows billing based on the date of filing regardless of the tax year</p> <p>Bills are not generated for taxes filed three years past the return’s due date</p> <p>Taxpayer balances that are not billed by RPS are seldom addressed by DOR</p>	<p>RPS calculates the three year statute of limitations on the tax return year instead of the date of filing</p>	<p>Taxpayers are not properly billed and DOR may not collect all revenue due</p>	<p>All liabilities owed DOR are billed to taxpayers</p>	<p>RPS coding should be updated to recognize the statute of limitations on the date returns are filed and not the tax return due date</p>

Issue Refunds or Credits

Issue Refunds or Credits was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to identify refund candidates and process refunds appropriately.

Deloitte & Touche identified and documented the processes surrounding the issuance of refunds and credits, with attention to requested refunds. Through Deloitte & Touche’s research, it was noted that the refunds process is performed in several departments across DOR. Automated refunds are processed by finance (EFT) and IT and requested refunds are processed by the audit/discovery division of enforcement. DOR recently implemented new policies and procedures for the consolidation, standardization and communication of tax refunds of \$250,000 or greater. These new procedures allow for improved tracking and monitoring of high dollar refunds and improved communications within DOR and with other agencies, such as OMB.

Funds/resources were not available when RPS was acquired in the 1990s to allow DOR to purchase the refunds modules available. As a result, the requested refunds process is maintained within a standalone system that is not interfaced with RPS. New refund requests are manually entered in the standalone system and the results of refund requests are manually entered into RPS. As new refund requests are entered into the standalone system, it becomes overwhelmed with data and staff has noted it is much less efficient in recent years. In addition, few users are able to utilize the refunds system, leading to an increased reliance on collaboration between DOR departments. It was determined that information is often passed between departments via email and phone calls.

Individual refunds are primarily processed through the high volume refunds process. While these refunds are automated in RPS, there are no systematic limitations that prevent adjustments to taxpayer accounts and refund balances. As such, the possibility exists for invalid refunds to be paid by DOR.

Below are four detailed observations and recommendations noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Issue Refunds or Credits process:

Condition	Cause	Impact	Criteria	Recommendation
System for requested refunds is maintained outside of RPS DOR utilizes an Access database to monitor requested refunds The refund system does not maintain an audit trail of refund activity and an excel spreadsheet is exported from the system each week to assist research efforts RPS does not interface with the refunds system requiring DOR employees to manually enter the results of refund requests into RPS	Funds/resources were not available to acquire the refunds portion of RPS The refunds standalone system is an Access database that does not allow for the preservation of historical data	Information in RPS may not include all activity in a taxpayer’s account and the standalone system does not maintain a history of the activity for a taxpayer’s refund request	Taxpayer balances in RPS encompass all of a taxpayer’s activity	Refunds should be a centralized process within a module of the returns processing system
There are no systematic limits on adjustments to taxpayer and refund balances	RPS access cannot be limited within the maintenance function	Taxpayer refund balances may be adjusted in error	Taxpayer balances in RPS are accurate and verified	Employee access should be limited to eliminate unauthorized adjustments Adjustments to taxpayer accounts should be reviewed on a sample basis to identify

Condition	Cause	Impact	Criteria	Recommendation
PRIs are not generating consistently to notify DOR that WTH refunds have been requested by the taxpayer and require review	Coding changes in RPS have incorrectly led to the removal of exception flags	Taxpayer balances in RPS may not be accurate	RPS/system parameters and coding is in place and tested; parameters accurately dictate the proper identification of exception items	inaccurate or inappropriate adjustments RPS coding related to the generation of exception items should be reviewed
Multiple departments play a role in processing refund items Requested refunds are processed in Audit and Discovery to assist in the identification of fraudulent claims while Finance plays a role when EFT payments are involved	Requested refunds were assigned to Audit/Discovery to aid in the identification of fraudulent activity	Information in RPS may not include all activity in a taxpayer's account	Taxpayer balances in RPS encompass all of a taxpayer's activity	Refunds should be a centralized process performed by one department in DOR that is accountable for the results of refund processing

Provide Taxpayer Assistance

Provide Taxpayer Assistance was identified as a low-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to educate taxpayers and assist them with questions and inquiries concerning their tax accounts.

Deloitte & Touche identified and documented the processes and procedures utilized by DOR to provide assistance to taxpayers. Attention was given to inquiry and protest procedures utilized by customer service and the legal division. Inquiries and protests are initially handled in customer service, which attempts to resolve issues before referring them to Legal. Ideally, only those inquiries and protests that deal with the legality of the tax in question are forwarded to Legal. The majority of inquiries and protests are resolved within six months and aging reports of outstanding issues are reviewed monthly.

Below are two detailed observations and recommendations noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Provide Taxpayer Assistance process:

Condition	Cause	Impact	Criteria	Recommendation
<p>To research a taxpayer’s account, DOR is required to manually review multiple systems to capture all taxpayer information</p> <p>Standalone systems are not interfaced with RPS and DOR does not have a centralized system to account for the universe of taxpayer data</p> <p>DOR employees without access to standalone systems must rely on proactive communication between departments to ensure all taxpayer information is considered when reviewing accounts</p>	RPS is not a fully ITS that incorporates all tax types	Research performed on a taxpayer’s account may not include all activity	Taxpayer balances in RPS encompass all of a taxpayer’s activity	DOR should have an ITS that incorporates all tax types and all taxpayer activity
<p>Correspondence generated by DOR is not consistently prepared across the Organization</p> <p>Customer Service and tax administration utilizes standard form letters that are reviewed and approved by public relations</p> <p>Refund letters are created by DOR employees as needed and little to no review is performed</p>	Each department within DOR manages its own process for generating correspondence	Taxpayers may receive correspondence with erroneous information resulting in a negative perception of DOR	Taxpayers receive consistent communications from each department within DOR	All correspondence generated by DOR should be consistent throughout the Organization and be approved by public relations

Perform Collection Activities (past-due items)

Perform Collection Activities was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to identify overdue accounts, review and prioritize collection activities, communicate with taxpayers for collections, establish payment plans, transfer accounts to collections entities, manage uncollectable funds, manage warrant processing, collect overdue accounts, write-off accounts, manage appeals, and establish bills based on best information available (BIA).

Over the past year, new management for the collections function has reorganized the structure to increase the efficiency and effectiveness of the process. DOR has seen steady improvement in their rate of collection and the money collected from delinquent taxpayers over recent years.

However, there still is a lack of documented and standardized procedures across a number of functional areas within DOR (account selection, payment plan establishment, handling BIAs). Additionally, DOR applies inconsistent standards and rules to different types of taxpayers. Furthermore, not having an ITS does not allow DOR to completely monitor collections activity and track performance across employees and collections methodologies. Additionally, manual processing of payments creates inefficiencies in the processing times of payments from collection entities as well as manual entries increase the opportunity for errors. Management does plan to review discovery program options.

Below are five detailed observations and recommendations noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Perform Collection Activities (past-due items) process:

Condition	Cause	Impact	Criteria	Recommendation
The collections department does not examine Data Warehouse open liability reports daily, create a case for that account, and assign to either outbound calls or field collectors. No documented account selection procedures or scoring methodology available to tie high-risk applicants to best collection approach	DOR has not developed collections procedures. Automated workflow systems are not used to determine the processing of past-due accounts depending on the account category, account owner history, and profile information	Unbilled taxpayers result in understated revenue and accounts receivable, as well as lost revenue and cash flow. Lack of focus on significant or high-priority past-due accounts may result in delays in collection or accounts not collected at all	Monthly exception and aging reports are generated highlighting unusual items. Significant items are investigated and resolved on a timely basis and in the appropriate accounting period	DOR should develop documented collections procedures that include account selection and payment plan. These procedures should include account selection and collection methodology instruction, as well as payment plan guidelines and authorization limits
Payment plans have inconsistent standards and unclear authorization limits	DOR has not developed collections procedures	DOR is exposed to risk of potentially unfair payment plan standards across different taxpayers Lack of established oversight and authorization procedures for payment plans	Payment defaults are reported and procedures are in place to monitor taxpayers who are on payment plans. System limitations are in place for approval of payment plans and penalty waivers	DOR should develop documented collections procedures that include account selection and payment plan. These procedures should include account selection and collection methodology instruction, as well as payment plan guidelines and authorization limits

Condition	Cause	Impact	Criteria	Recommendation
Payments are manually processed from collections agencies and sheriffs	Technological processes and procedures have not been developed to process payments from collections agencies and sheriff's departments electronically	Inefficiencies in payment processing cause valuable time and resources to be spent manually processing payments. Manual entry errors having to be reworked can cause delays and inaccuracies in revenue reporting	Payments are processed electronically through high-volume payment processing for standardization	DOR should work with collections entities to establish standards across payment and reporting procedures to more efficiently and effectively process payments and oversee performance
BIAs become actual liabilities and make it to collections and exhausted stages, however the entity in many cases is out of business. As BIAs continue to go out to these businesses, valuable time and financial resources are spent attempting to collect from businesses that have closed or are insolvent	DOR has not taken the time to create complete collections procedures and the lack of an ITS inhibits the collections unit from maximizing fulfillment of responsibilities. Lack of cross-agency coordination in obtaining closed business information	Failure to properly assess taxpayer liabilities may result in an overstatement of accounts receivable and revenue Time and financial resources are spent in attempts to collect on BIAs that have a low rate of collection	Cutoffs are established for BIAs receivables to be delivered before investigating whether or not business is still operating	DOR should put in automated triggers that stop BIAs from being sent out after a certain number have gone out to the same taxpayer. These accounts should be investigated to check if the business has been closed and determine what is truly collectable before sending the account to the warrant stage. DOR should review BIAs regularly and research those that are in the exhausted stage with the Secretary of State regularly
DOR collections staff are unclear on process for writing off accounts and are not aware of financial accounting's rules that are applied for financial reporting	DOR has not formalized write-off procedures and account aging information is not readily available	Financial reporting for accounts receivable as well as what is determined to be uncollectable is not reported accurately or reliably	Documented write-off procedures that are carried out in financial reporting are established collaboratively with relevant departments (i.e. collections, enforcement, legal, etc.)	DOR should standardize write-off procedures and create detailed aging reports that help establish and reevaluate write-off procedures

Perform Enforcement Activities

Perform Enforcement Activities was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to select, schedule and perform audits, as well as notify taxpayers of documented audit opportunities for improvement, discover fraudulent and unregistered taxpayers, and make financial adjustment from audit assessments.

The scheduling of audits, monitoring audit performance, and conducting audits and investigations appear to be operating as planned for the enforcement department. An opportunity for improvement exists with enforcement leadership facilitating communication across the different audit groups. Currently, there is a Sales and Withholding audit group and a Special Taxes audit group. While these groups do have legitimate reasons as to why work is performed differently, like mandatory audit number requirements and the lack of an ITS that captures all tax types, more communication across these two groups could benefit the Organization. Furthermore, DOR’s Enforcement group would benefit from decreasing the amount of manual entry and processing associated with creating audit cases and selecting high-risk audit candidates. The current process is inefficient as it is manual, time consuming, and does not provide a complete pool of high-risk audit candidates in an efficient manner.

Currently, DOR plans to increase the staffing levels of the audit team. More automation in the audit selection process will allow for auditors to receive audit files quicker and reduce the potential for auditor idle time. Integrating RPS with the tools and programs utilized by the auditors when performing audits will also reduce the opportunity for input errors, inconsistencies in reporting, and decrease the time associated with creating audit files. Also, there is no discovery function within DOR’s Enforcement group to help identify new taxpayers who are not filing with the State as required. It was noted that DOR is researching discovery software options.

Below are two detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Perform Enforcement Activities process:

Condition	Cause	Impact	Criteria	Recommendation
Enforcement does not use best practice in selection of high risk taxpayers for audit resulting in reduced collections, under-reported accounts receivable and missed revenue	In case of field audit selection as well as special tax audits, the necessary reports that provide automated high risk candidates lists are unavailable. The technological tools have not been put in place to enhance selection and minimize manual entry errors	Unbilled taxpayers result in understated revenue and accounts receivable, as well as lost revenue and cash flow	Selection of taxpayers for audit is risk based system criteria that identifies high risk accounts	DOR should develop automated reports that identify and score audit candidates based on established and validated risk criteria If all special taxes were in one system special Tax auditors would also be able to use these automated reports
There is no taxpayer discovery function within DOR. The Special Investigations Unit handles cases of refund fraud and other investigations, but does not handle the discovery of new taxpayers who are not filing within the State, or the discovery of taxpayers who are not filing for all their relevant taxes. DOR relies	No processes or procedures in place within Special Investigations Unit to address Taxpayer Discovery	Enforcement does not identify taxpayers who either are not paying all of their applicable taxes or not paying taxes at all, resulting in an inaccurate representation of potential revenue. Furthermore these non-taxpaying individuals are not making their contribution towards the services the State provides	Processes and procedures are established for Special Investigations Unit to address Taxpayer Discovery	DOR should develop processes, procedures, and a function within Enforcement that handles Taxpayer Discovery

Condition	Cause	Impact	Criteria	Recommendation
on the IRS reports to catch individuals who may have filed Federal Income Taxes, but not with the State		Reduced collection and missed revenue		

Perform Tax Administration and Analysis

Tax administration analysis was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to administer legislation affecting revenue collection and receivables management, develop and measure operational performance goals related to predefined targets for revenue and receivables management, and develop specific policies and strategies that enable the Organization to meet related performance goals.

The legal-tax policy group within DOR has formalized processes to review, interpret and monitor tax-related legislative changes. Legislative changes are consistently tracked and experts are frequently involved in the process to administer any related changes across the Organization. DOR recently implemented additional controls regarding the centralization of tax rate changes and updates. Due to limited resources and lack of employee backfill, knowledge regarding revenue trending and reporting was lost. Management has developed future-state performance metrics and targets specific to revenue reporting and management. However, DOR is still faced with the challenge of identifying a reliable data source to support the measurement and trending of these metrics.

Below is one detailed observation and recommendation noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Tax Administration and Analysis process:

Condition	Cause	Impact	Criteria	Recommendation
There is no process in place to analyze strategy and review operational performance	<p>Reliable source data required for future state performance metrics is not available with the current information technology utilized by DOR</p> <p>Due to lack of employee backfill and cross-training within DOR, knowledge regarding revenue trending/budgeting was lost</p> <p>DOR relies on OMB for revenue trending, budgeting, and reporting</p>	The agency departments may not analyze data, prepare trending reports, and identify areas where performance is not meeting goals. The agency does not have performance metrics and trending reports distributed on a consistent basis to identify where goals are not being met	All required analyses are prepared accurately and consistently in accordance with the entity’s defined performance measures. Necessary adjustments are identified and documented	<p>A formal process to analyze, trend, and report DOR operational results should be adopted by DOR to identify and monitor high risk areas of the Organization:</p> <p>Operational performance measures should be developed and documented as a supplement to the overall strategic performance measures and key performance indicators (KPIs) for the organization</p> <p>Business-line performance measures should be developed to identify revenue trends specific to tax types</p> <p>Taxpayer compliance performance measures should support strategies and policies of the Enforcement business process</p> <p>Revenue reporting should be reviewed by DOR management at least quarterly and adjustments made accordingly</p>

Manage Revenue Accounting and Distribution

Revenue Accounting and Distribution process was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR's capabilities to process estimated distributions, final distributions, and prepare revenue reports.

Revenue accounting and distributions process spans over multiple agencies to include OMB and multiple departments such as legal-tax policy. This creates a challenge for DOR to administer revenue from the point of receipt through the distribution and revenue reporting process. Additionally, this challenge is increased by the need to address complex statutory requirements and limitations with current IT.

DOR's remediation efforts also have included a focus on the reconciliation of the collections fund, which is one of the primary revenue clearing accounts. Significant progress has been made toward the reconciliation of this account and the approach will serve as a basis for future account reconciliations and will increase DOR knowledge of how data flows from RPS into the general ledger.

Below are four detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Revenue Accounting and Distribution process:

Condition	Cause	Impact	Criteria	Recommendation
<p>There is no integrated revenue accounting and distribution process. Revenue accounting and distribution is performed within multiple spreadsheets owned by multiple agencies</p> <p>Special tax revenue is calculated and tracked outside of RPS within various standalone systems (e.g., access databases, spreadsheets)</p> <p>Series of complex steps and computer queries are required in order to obtain a complete audit trail of transactions within RPS from the point of entry to the point of allocation based on coding/programming within the system</p> <p>Historical programming and coding within RPS has led to inaccurate revenue reporting. Due to manual manipulation within spreadsheets to post revenue transactions and distributions to the general ledger, transparency between RPS and general ledger is lost. Also, current functionalities within the general ledger, such as the usage of locality</p>	<p>There is no interface between the General ledger and RPS and reconciliations are not consistently performed between the two systems; therefore, manual manipulation of RPS data must take place prior to entry of revenue transactions into the general ledger. Knowledge sharing regarding this process does not exist and accountability has not been established</p> <p>Current systems are unable to perform revenue estimates and process revenue distributions in real time; therefore, manual calculations are performed within spreadsheets by OMB</p> <p>Due to lack of employee backfill and cross-training, knowledge regarding the calculation and disbursement of "special revenue" and "supplemental revenue" distributions may have been lost</p> <p>DOR did not adequately prepare for the State's transition to the PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>Upstream accounting and underlying data may result in inaccurate revenue estimates</p> <p>A formalized data warehouse strategy does not exist and may result in inflexible reporting capabilities that do not support an integrated analytic framework</p>	<p>The revenue function verifies the integrity and completeness of revenue computations</p>	<p>DOR should adopt an integrated revenue accounting and distribution process which includes accountability for the recording, distribution, and reporting of revenue</p> <p>Complete audit trail of transactions from the point of receipt to recording in the general ledger increasing the level of transparency</p> <p>IT that supports complex revenue computations such as estimates, accruals, and distribution formulas, and other revenue accounting methodology</p> <p>Accurate and reliable data necessary to perform revenue trending and reporting based on predetermined metrics developed</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>values to identify transfers and distributions to local counties are not utilized</p> <p>The current multi-agency approach to LOIT accounting and Reporting makes it confusing and difficult to manage what could be a fairly simplistic process if centralization was done and certain other changes were made to streamline the process</p> <p>Revenue estimations related to LOIT are not performed in real-time. Fluctuations related to LOIT accounting and distributions are only accounted for within OMB's book of record, which is a compilation of manual spreadsheets maintained separately from the General ledger. No accrual or adjustment at year-end within the General ledger is performed for the estimated overstatement or understatement of the general fund due to the disparity between revenue collections and distributions related to LOIT</p> <p>Adjustments to distribution calculations within excel spreadsheets are not tracked and documented by OMB</p> <p>State Board of Accounts (SBOA) has to rely on the OMB book of record to provide financial information related to the reporting of LOIT revenue and distribution detailed in the State's Comprehensive Financial Report (CAFR). Financial forecasts related to LOIT accounting and distribution are based on LOIT financials from the OMB accounting system; however, surplus Statements report LOIT balances from General ledger</p>	<p>Current systems are unable to perform revenue estimates and process revenue distributions in real time; therefore, manual calculations are performed within spreadsheets by OMB</p> <p>Due to lack of employee backfill and cross-training, knowledge regarding LOIT Accounting and Reporting is limited to one agency</p> <p>DOR did not adequately prepare for the State's transition to the PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>Upstream accounting and underlying data may result in inaccurate revenue estimates</p> <p>A formalized data warehouse strategy does not exist and may result in inflexible reporting capabilities that do not support an integrated analytic framework</p>	<p>The revenue function verifies the integrity and completeness of revenue computations</p>	<p>LOIT accounting and distribution should be a centralized process with the Department of Revenue serving as the processing function</p> <p>OMB, AOS, and DOR should consider enhancing tax accounting knowledge and expertise related to LOIT across the Organization including a formal review by local option tax specialists for further enhancement opportunities, such as addressing current statutory requirements</p> <p>Complex calculations should be performed within a broad accounting system removing the need for manual intervention and excessive usage of spreadsheets</p>
<p>Timely reconciliations are not being performed by DOR for their general ledger funds, balance sheet accounts, and revenue disbursement calculations ("Account" refers to any combination of Fund and Account within the DOR business unit, BU90)</p> <p>Reconciliations between RPS and the general ledger are not consistently</p>	<p>Account reconciliation policies and procedures have not been consistently applied across the Organization</p> <p>DOR has not consistently reviewed the accounts for which they are responsible over the past 10 years. Clear lines of accountability for specific funds do not exist. Therefore, funds exists that may not have been cleared</p>	<p>Accounts may not be analyzed and reviewed regularly by management for trends and expected movement; reconciliation of final distributions is not performed; errors may not be identified and corrected in a timely manner. Unbilled</p>	<p>The Revenue function performs timely reconciliations to assess the reasonableness of revenue compliance computation</p>	<p>DOR should perform timely revenue reconciliations</p> <p>Revenue accounts should be identified within the General ledger and assigned an owner within DOR accounting operations</p> <p>Account reconciliation policies</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>performed</p> <p>Clearing accounts in general ledger have not been reconciled. These balances are a result of old transaction data that was posted or adjusted inaccurately and never cleared or reconciled</p> <p>DOR has to rely on IT to run queries in order to obtain transactional level detail to perform account reconciliations</p>	<p>and/or lack usage by DOR</p> <p>DOR did not adequately prepare for the State of Indiana's transition to the PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>revenue, Suspense, A/R Clearing, and Clearing accounts related to revenue may not be reconciled monthly to clear and post amounts to the appropriate accounts</p>		<p>and procedures should be developed and adopted by DOR that includes:</p> <p>Methodology in regards to how and when accounts should be reconciled</p> <p>Formal review process</p> <p>Thresholds and variance levels for exception identification and reporting</p> <p>Process to adjust financial information based on reconciliations performed</p>
<p>There is no process in place to report and analyze tax revenue. Department of Revenue (DOR) has not established revenue benchmarks and does not identify and report revenue trends for the Organization</p>	<p>Reliable source data required for future state revenue metrics is not available with the current information technology utilized by DOR</p> <p>Due to lack of employee backfill and cross-training within DOR, knowledge regarding revenue trending/budgeting was lost</p> <p>DOR relies on OMB (OMB) for revenue trending, budgeting, and reporting</p>	<p>The agency departments may not analyze data, prepare trending reports, and identify areas where performance is not meeting goals. The agency does not have performance metrics and trending reports distributed on a consistent basis to identify where goals are not being met</p>	<p>All required analyses are prepared accurately and consistently in accordance with the entity's defined performance measures. Necessary adjustments are identified and documented</p>	<p>A formal process to analyze, trend, and report operational results related to revenue should be adopted by DOR to identify and monitor revenue trends and report revenue performance and compliance:</p> <p>Revenue performance measures should be developed and documented as a supplement to the overall strategic performance measures and KPIs for the Organization</p> <p>Business line performance measures should be developed to identify revenue trends specific to tax types</p> <p>Taxpayer compliance performance measures should support strategies and policies of the Enforcement business process</p> <p>Revenue reporting should be reviewed by DOR management at least quarterly and adjustments made accordingly</p>

Key Infrastructure Business Process Opportunities for Improvement

Below are the DOR-specific observations for the key infrastructure business processes. Infrastructure processes, as used here, are those areas that are the foundation of the Organization and run in the background to support the day-to-day functions.

Plan for and Manage the Organization

The Plan for and Manage the Organization process was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR's capabilities to assess community conditions and needs, define an overall organizational strategy and corresponding operational, capital, and financial plans, develop specific performance goals and targets, and monitor and report performance to stakeholders.

The overall strategic plan has been developed by DOR and three core areas will receive the most attention over the next year: Finance, IT, and collections and enforcement. These have been identified key areas for improvement necessary to broaden DOR's strategic focus to include support for the foundational processes supporting the administration of the Organization. Goals for each of these areas have been developed and progress has been made to strengthen management level expertise in each of these areas to drive initiatives to reach the specified goals. To supplement this plan, each department within DOR has been tasked with creating goals and strategy that tie back to this overall strategic plan and the three core focus areas. The performance metrics also tie to the core areas of focus within the strategic plan. Recent committees have been established such as the governance committee and strategic operations committee that meet weekly to review prioritized agency issues, new policy formation, resource leveraging across departments, alternative work scheduling, and projects.

Major efforts to document the flow of tax types from entry into RPS through distribution have been made. However, internal controls have only received focus at the management-level and will become more relevant as the prioritized agency issues are addressed. DOR recently hired additional analysts to be responsible for revenue, budget, and expenses related to management reporting and operational reviews. The first operational review meeting was held on November 13, 2012 and covered only budget and expenses. The plan is to incorporate revenue by January of 2013 and by March of 2013 include the performance metrics.

Deloitte & Touche recognizes the significant efforts that have been made by the new commissioner and DOR senior management to effectively manage the Organization along with the hiring of the Strategic Transformation Initiatives Leader, who will lead the task force to address competing priorities and

implement the strategic goals of the Organization. As the Organization continues those efforts, Deloitte & Touche recommends that the establishment of a project management team be considered to plan, manage, and report on the many competing priorities that now face the Organization. The issues that are included in this report will need to be added to the list of previously identified issues and a reprioritization will need to be performed to focus the Organization's time and resources to the areas of highest risk. Strategies will likely need to be readjusted and resources realigned to facilitate focus on the most important matters. Because many of the individuals currently involved in guiding the remediation of issues are also the very leaders who have day-to-day responsibilities for running the Organization, we recommend a focused team of individuals be created who work full time on this project management team until a majority of the significant issues have been addressed.

Below is one detailed observation and recommendation noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Plan For and Manage the Organization process:

Condition	Cause	Impact	Criteria	Recommendation
DOR is faced with many competing priorities and will have to effectively prioritize and manage the changing environment as the Organization evolves	Current pressing issues along with remediation efforts will require significant changes to the current business processes and additional expertise across the Organization	If competing priorities are not managed, critical efforts to support the enhancement of the Organization may not receive the appropriate focus and may lead to the Organization being faced with additional avoidable issues	When significant changes in the business occur, the company considers the competence of personnel to appropriately address new issues resulting from the changes, develops a plan to address the changes, and appropriate action is taken	DOR should consider instituting a project management team to plan, manage, and report on the many competing priorities that now face the Organization. This project management team should develop a roadmap with management support to address competing priorities and monitor the progress of DOR remediation efforts. Additionally, a focused team of individuals should be created for this project management team outside of those who have day-to-day responsibilities for running the Organization until a majority of the significant issues have been addressed

Manage Organizational Design

The Manage Organizational Design process was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to plan and manage human resource aspects of the Organization, including organizational design, employee development, employee data/information retention, and employee succession planning.

DOR has made significant improvement to the organizational structure, such as the creation of management-level positions to divert direct reporting to the commissioner and establishing the strategic operations committee to review resource needs across the Organization. Additionally, DOR has begun an analysis of job descriptions to align positions with the appropriate activities and responsibilities. The analysis will be ongoing and will change as DOR addresses current pressing issues and continually make improvements to processes, procedures and controls. Other DOR future efforts will include designating and hiring professionals to serve on product councils to enhance tax-type expertise along with an initiatives leader to drive change within processes. Although steps toward succession planning have taken place, DOR should identify key positions within its organization structure and formally document succession plans for those across the Organization.

Deloitte & Touche recognizes the improvements detailed above made by DOR senior management are in response to the current environment and will continue to evolve as processes and current pressing issues are addressed. Recommendations for the agency include consideration for a deeper dive analysis into the organizational strategy with a focus on centralization and standardization of business processes across the Organization. Future resourcing requirements should include efforts to increase financial accounting, reporting, and system expertise across the staff level of the Organization since focus has primarily been to build management-level expertise. Role and responsibility assessments should be considered as a supplement to the current job description analysis in process and would serve to align the appropriate roles with future-state business processes efficiencies, accountability and internal controls development, and training. Additionally, development of specific training programs for newly created positions (e.g., product councils) and updates to current training programs areas such as DOR accounting operations will prove to be beneficial to the Organization as the organizational structure continues to evolve.

Below are three detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Manage Organizational Design process:

Condition	Cause	Impact	Criteria	Recommendation
Revenue accounting and distribution, refund processing, financial accounting and reporting, and collections are not centralized across the Organization contributing to business process inconsistencies and disparate internal communication. Overlaps and lack of insight into the performance of processes exist across the Organization	Although the organizational strategy has been developed, focus on alignment with current business processes received limited focus due to the prioritization of current pressing issues	Process overlaps and inefficiencies may exist across the Organization Policies and procedures may not be properly applied across the Organization	Management periodically evaluates the entity's organizational structure and makes changes as necessary in light of changes in the business or industry	DOR should consider a deeper dive analysis into the organizational strategy with a focus on centralization and standardization of business processes across the Organization Business processes should be clearly defined and the organizational structure should be aligned to key business process activities increasing consistency across the Organization
Financial accounting, reporting, and system expertise is limited across the staff level of the Organization.	Current pressing issues and building of management expertise have taken priority leading to limited focus on the	Department may not have the necessary skills and	DOR personnel have the competence and training necessary for	DOR should consider a deeper dive roles and responsibility assessment across the Organization to align the appropriate roles with

<p>Adequate segregation of duties (prepare/post/reconcile) and internal controls do not exist for key roles across the Organization</p>	<p>staff level of the Organization</p>	<p>competency to support the growth of the Organization or strategic needs of the Organization</p>	<p>their assigned duties</p>	<p>key business process activities enhancing future state business processes efficiencies, accountability, and internal controls development. Roles and responsibilities assessments would help to identify areas where additional expertise is needed, validate current job descriptions, and to develop specific training programs to build specialty knowledge across the Organization enhancing future state business processes efficiencies, accountability, internal controls development, and training</p>
<p>Succession plans have not been documented for critical DOR positions. Knowledge sharing is limited to non-existent through business process across the Organization (e.g., refunds) and across agencies (e.g., LOIT accounting and distributions)</p>	<p>Although progress has been made toward the enhancement of institutional knowledge and the establishment of management level positions to support DOR critical leaders, a formal succession plan for each critical role has not been developed. Current pressing issues and building of management expertise have taken priority leading to limited focus on documented succession plans</p>	<p>Department may not have the necessary skills and competency to support the growth of the Organization or strategic needs of the Organization</p>	<p>DOR personnel have the competence and training necessary for their assigned duties</p>	<p>DOR should formally identify and document succession plans for critical positions related to DOR critical business process activities</p>

Manage Information Technology

Manage Information Technology (IT) process was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR's capabilities to manage data batch updates, system changes, user security, and disaster recovery for INTax, Data Warehouse, and a sample of standalone tax systems, and RPS.

Deloitte & Touche identified and documented the processes surrounding DOR's IT, with attention to INTax, Data Warehouse, a sample of standalone tax systems, and RPS. Through Deloitte & Touche's research, it was noted that the IT environment at the application level is managed by DOR, meanwhile, the server and desktop level administration is managed by IOT. For the purpose of the review, we focused on application level IT management within DOR's responsibility.

DOR has increased its focus on IT and the importance it has on the success of the operation. A new Chief Information Officer (CIO) joined the senior management team in July, 2012, and has proactively begun addressing many of the IT deficiencies within the Organization. Management is continuously exploring new methods to improve their operation and related control and security. However, we recommend DOR focus efforts on creating a general IT strategy and increase its system related controls and relative enforcement. During the Controls and Performance Audit, we noted deficiencies in DOR's IT Change Management, Disaster Recovery for Revenue Systems, IT Strategy, IT Operation, Application and Database Security.

Below are eight detailed observations and recommendations noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Manage Information Technology process:

Condition	Cause	Impact	Criteria	Recommendation
<p>RPS, INTax, and standalone system changes related to legislation are not reviewed by Tax Administration and Analysis prior to implementation</p> <p>DOR's Change Management procedures are not consistently followed within DOR's change management Software Invest Request (SIR):</p> <p>Unable to identify the QA Tester on 86% of RPS SIR's sampled and 100% of INTax SIR's sampled</p> <p>Complete testing documentation (test scripts and test results) were not documented for 57% of RPS SIR's sampled and 50% of INTax SIR's sampled</p> <p>During our review of SIRs, many are being tested from a technical perspective and not thoroughly tested by the key unit owners</p> <p>The criterion is not clear of what is expected for all types of changes</p> <p>For new implementations or changes in Data Warehouse, there is no formal documentation of the testing or the resolution of differences of</p>	<p>DOR does not consistently follow the change management procedures across all systems reviewed. Furthermore, the UAT for the legislative change process does not include key personnel from Tax Administration and Analysis</p>	<p>Changes to the key systems may not be fully tested and properly reviewed prior to implementation, which could identify potential issues or errors. In addition, key aspects of the legislative changes may not be properly interpreted or implemented</p>	<p>DOR Change Management process is clearly defined and applied to all RPS, INTax, and Data Warehouse changes consistently. The process includes a Quality Assurance review and a UAT with key business unit owners with an in-depth operational knowledge of DOR and applicable legislative changes</p>	<p>Changes in the key systems should be consistently reviewed by an independent QA reviewer and UAT testing should be performed by a comprehensive list of key business unit owners and thoroughly tested and documented prior to implementation into the production environment. Also, the current procedures should be executed consistently and diligently. Furthermore, the change management procedures for Data Warehouse should be revised and implemented similar to the procedures currently in place for INTax and RPS</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>newly implemented reports</p> <p>DOR does not have a disaster recovery and business continuity plan for key systems such as RPS, INTAX, or Data Warehouse that outlines roles and responsibilities, procedures and protocol to be followed in the event of a disaster</p> <p>While DOR does have physical IT hardware and backup data at an offsite location, DOR does not perform periodic tests of their key revenue systems and data backups (e.g., RPS, Data Warehouse) to ensure the capability of being able to recover from a main systems failure and perform a proper and complete restoration in the event of a disaster</p>	<p>DOR does not have a disaster recovery and business continuity plan documented</p> <p>DOR does not perform periodic backup restoration testing</p>	<p>In the event of disaster, there may be a significant interruption of operation due to the lack of planning, adequate procedures, and periodic testing of the backups. Furthermore, in the event of a system related disaster, data may be corrupted and could be lost due to incomplete or inadequate backups and proper restoration testing of those backups</p>	<p>DOR has a disaster recovery and business continuity plan that has been implemented and periodically tested</p>	<p>DOR should have a disaster recovery and business continuity plan that includes the following:</p> <p>Clearly defined tasks to be performed by DOR which are ranked based on criticality</p> <p>Designated key personnel (and backup personnel) for each task including the identification of their related roles and responsibilities and contact information for these individuals,</p> <p>Designated backup sites for operational processes, and</p> <p>Personnel trained on the procedures to be followed</p> <p>Furthermore, DOR should perform periodic data recovery tests to ensure that the backups they maintain are adequate and can support the business with minimal interruption</p>
<p>DOR does not have a formalized IT strategy that addresses short-term and long term IT strategies for the Agency, which would include systems and their related lifecycles, technologies, software, vendor management, people and IT operations</p> <p>Based on the one vendor contract that DOR provided, it was noted that the contract examined has been expired since 2010. In addition, it was noted that the contract does not have defined PII restrictions.</p>	<p>DOR does not have a formalized IT Strategy</p> <p>DOR's vendor management process does not include a process to ensure that all contracts in place are valid and current and the existing contracts do not include specific PII clauses and restrictions</p>	<p>Without a formalized IT strategy, DOR may not be able to meet current and long-term needs of the Organization. In addition, without proper management of IT vendors and their related contracts, the agency may be exposed to operating without a contract and subject to potential cost increase or operational failures. Furthermore, vendor contracts without a clear definition of PII and adequate controls or restrictions may pose DOR's confidential information to unnecessary risk</p>	<p>DOR has a formalized short-term and long term IT strategies for the Agency, which would include systems and their related lifecycles, technologies, software, vendor management, people and IT operations. Also, outsourced vendor contracts are current and have clear PII clauses and definition within the contract to protect taxpayer data appropriately</p>	<p>DOR should formalize a short-term and long-term IT strategy to help guide IT decisions and set clear life cycles on their current hardware and software. Also, outsourced vendor contracts should be periodically reviewed to ensure that the contracts are current and properly in force. Furthermore, specific definition and criteria around PII/FTI should be included for all outsourced vendors contracts</p>
<p><i>DOR's IT system interface:</i></p> <p>RPS does not interface with the general ledger Accounting system used by the State</p> <p>Data Warehouse underlying source data is updated on an incremental basis (a complete</p>	<p>DOR's IT system interface and related controls are not sufficient to properly mitigate potential issues or errors</p> <p>DOR's Help Desk Ticket log</p>	<p>Without formalized processing procedures related to the underlying data, data may be inaccurately processed, summarized or reported. In addition, without a proper</p>	<p>DOR RPS interfaces with general ledger to transfer financial data and ensure proper reporting. Also, Data Warehouse and RPS are reconciled periodically for</p>	<p>DOR's core tax system should interface with the State's general ledger Accounting system to reduce the amount of user interface required to upload accounting</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>data refresh is not performed periodically), yet there is no reconciliation process between RPS and Data Warehouse systems for account level detail or periodic review of errors to maintain integrity within both systems. (E.g. Account level or taxpayer level)</p> <p><i>DOR's Help Desk:</i></p> <p>Help Desk ticket history report does not show key information (e.g., requestor information, who tickets were "forwarded" to, or how "forwarded" tickets were resolved)</p> <p>There are examples of taxpayer SSN and TID used to identify taxpayer accounts within the Help Desk Ticket System, instead of an arbitrary Account Number that does not contain Taxpayer PII. This is a violation of IOT Policy. In addition, DOR does not have a specific documented policy that addresses the treatment of taxpayer SSN and TID</p> <p>DOR's system data batch management and related logging:</p> <p>There is not a documented review of IT batch data updates for INTax and Data Warehouse</p> <p>There is not a batch log maintained that tracks and trends data transfer errors and their subsequent resolution</p>	<p>lacks proper controls/administration</p> <p>DOR does not perform a documented review and does not maintain an error log for batches processed by INTax and Data Warehouse</p>	<p>reconciliation between the applications, inconsistencies may be present and not detected in a timely manner</p> <p>The lack of formalized controls around the help desk ticketing system may result in a delay in the implementation of key changes to the applications, inappropriate disclosure of PII, and loss of processing integrity</p>	<p>account level detail or periodic review of errors to maintain integrity within both systems. And DOR performs a documented review of all data batch updates and records any errors and their related resolution</p> <p>DOR's Help Desk Ticket History Report has complete data and tickets can be properly tracked until completion. Furthermore, taxpayers are referred to by arbitrary account numbers as opposed to SSN or TID</p>	<p>data and to ensure consistency among financial statements. Also, DOR should perform a periodic reconciliation between Data Warehouse and RPS systems for account level detail or period review of errors to maintain integrity within both systems</p> <p>DOR should comply with IOT policy and ensure that an arbitrary Account ID is used, instead of PII, when referencing a taxpayer's account. In addition, the fields maintained in the Help Desk ticket history report should show additional key information (e.g., Requestor information, who tickets were "forwarded" to, or how "forwarded" tickets were resolved) to improve ticket monitoring and resolution</p> <p>Batch updates for Data Warehouse and INTax should undergo a documented review upon completion to ensure that all data is current and up to date, as expected. Furthermore, issues identified in the batch process should be documented along with their related resolution</p>
<p><i>Privileged users:</i></p> <p>A User ID is shared for privileged access to functions within RPS. This shared ID has capacity to make changes at the database level and implement modifications without further review</p> <p>RPS users have privileged access within the system and do not have a business need for their role within DOR</p> <p>Data Warehouse users have privileged access to create and modify reports, but do not have a business need for this access within their role in</p>	<p>DOR does not perform a periodic review of user access</p> <p>DOR does not maintain and periodically review logs for all changes and entries on RPS and INTax</p> <p>DOR does not perform a complete periodic IT Audit/Review</p>	<p>Inappropriate access to the IT environment may result in unauthorized changes to the applications as well as the underlying data and taxpayer information. Without proper logging, these changes may not be reviewed or authorized by management. Furthermore, the granting of excess privileges may result in the processing of unauthorized transactions</p>	<p>DOR performs a periodic review of user access to ensure users have appropriate access. Also, DOR monitors all entries and system changes to ensure appropriateness and validity. Furthermore, DOR performs a periodic IT audit/review, which provides an in-depth review and is consistent with General Computer Controls</p>	<p>Specific to the conditions observed, DOR should remove any shared User ID's and ensure each user has their respective username with appropriate access that coincides with their business need. Furthermore, a system wide review of user access should be performed periodically to ensure users do not have excessive or duplicate access and that all</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>DOR</p> <p>Privileged users have access to make changes in the INTax production environment without review and approval</p> <p>User Management:</p> <p>Employees that transfer within DOR are not subject to a review of system access for validity</p> <p>A review of user access across DOR's IT environment is not periodically performed to validate appropriateness of user access</p> <p>DOR does not perform a periodic audit/review of IT systems, user rights and IT security</p> <p>There is no formalized request process for new user access to Data Warehouse</p> <p>There are RPS IDs that are related to users who are no longer employed in DOR</p> <p>RPS users have duplicate access</p> <p>DOR's employees have access to view/edit their own taxpayer accounts, without further review or approval</p> <p><i>Logging:</i></p> <p>RPS application level changes are logged but not independently reviewed periodically and database level changes are not logged and cannot be independently reviewed</p> <p>On INTax, the application and database level changes are not logged and cannot be independently reviewed</p>				<p>users have a legitimate business need. DOR should place various controls to prevent employees from accessing related taxpayer accounts.</p> <p>In addition, logs of changes should be maintained for all IT systems and reviewed periodically to ensure changes and entries are appropriate and properly approved. Also, DOR should perform a periodic IT audit/review of IT systems, user roles, access, and authorization</p>
<p>DOR lacks formal documentation about existing systems. Developers have limited, up-to-date, system manuals to facilitate training and proper transfer of knowledge</p> <p>DOR does not have a proper succession plan related to systems knowledge transfer. Currently, other than a few key personnel with very in-depth knowledge of RPS, the agency as a whole does not have a detailed and documented understanding of RPS nor do they do not have proper documentation to transfer that knowledge appropriately</p>	<p>DOR does not have robust system documentation</p> <p>DOR personnel is very specialized and only select employees have a global understanding of how RPS works and interfaces</p>	<p>Lack of proper documentation and an adequate succession plan puts the Organization at a substantial risk if key employees were to separate from the Organization. Furthermore, employees with a very specialized understanding of the operations increases the risk of employees not fully understanding the potential impact of errors or issues</p>	<p>DOR has robust documentation for RPS training and related system manuals for developers. Also, there is a clear succession plan and a firm global understanding of how RPS operates</p>	<p>DOR should revise RPS system manuals to ensure that the documentation is current and in-depth. Also, DOR should cross-train employees and ensure that there is a clear succession plan and proper transfer of functional RPS knowledge</p>
<p><i>PII Policy:</i></p> <p>DOR does not have policies and procedures that detail the proper handling of PII (as defined by IRS 1075)</p> <p>DOR does not have a conflict of interest policy</p>	<p>DOR does not have specific policies related to how their employees are to handle PII with regards to IRS regulations (e.g., IRS 1075)</p>	<p>The unauthorized disclosure of certain types of PII may require notification, according to State and/or federal laws, to the individuals whose PII was subject to unauthorized</p>	<p>DOR has robust policies and related controls in place to safeguard PII and ensure only authorized personnel have access to sensitive data. Furthermore, DOR has a clear</p>	<p>DOR should strengthen policies related to PII; with clear definitions of what is considered PII, how to handle PII properly, and who is authorized to access the PII</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>that prohibits employees from accessing their own or related accounts.</p> <p>DOR does not have controls in place to prevent, and/or identify, employees from accessing key taxpayer data (e.g., Notable public figures, celebrities, State employees, etc.)</p>	<p>DOR does not have a Conflict of Interest policy in place for employees with access to edit taxpayer accounts</p> <p>There is not a restriction of viewing/editing key taxpayer data (e.g., Notable public figures, celebrities, State employees, etc.)</p>	<p>disclosure, to the government, and to others. This may result in fines and penalties as well as reputational risk</p> <p>Unauthorized changes may be made to the taxpayer information resulting in lost revenue and inappropriate adjustment to the taxpayers' liabilities. In addition, unauthorized viewing of taxpayer information may subject DOR to penalties, fines and litigation</p>	<p>Conflict of Interest policy that outlines proper procedures for employees to follow with regards to viewing/editing their own or related accounts. Also, DOR has restrictions for the viewing/editing of Notable public figures, celebrities, and State employees</p>	<p>information. These policies should be consistent and comply with all the requirements of State and Federal law. Also, DOR should create policies, procedures, and controls to prevent all employees from viewing/editing taxpayer data for notable public figures, celebrities, State employees, and related accounts</p> <p>Overall, DOR should consider performing a privacy assessment of DOR related systems, processes and controls</p>
<p>DOR Use of Manual Spreadsheets: Currently many of DOR's key processes are supported by manual processes which are subject to human error and require additional staff and time to perform tasks</p>	<p>Various processes are manual and take place outside of established applications and automated processes, which are more susceptible to error</p>	<p>Lack of process automation is susceptible to material user error or omission. Furthermore, a manual process increases the amount of time to perform tasks and increases the need of additional personnel</p>	<p>DOR's operation is automated and processes are efficient and effective. IT systems are designed to interface and perform tasks with minor user interaction</p>	<p>DOR should assess the major areas where manual spreadsheets are being utilized and develop a plan to automate processes to ensure the operation is streamlined and require minimal user interaction. This will ensure that efficiency is increased and processes are performed consistently and accurately</p>

Manage Financial Accounting and Reporting

The Financial Accounting and Reporting process was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to develop and maintain a finance strategy and budget, along with managing a chart of accounts, maintaining a general ledger, conducting financial analysis, performing financial close, and preparing financial statements.

This business process spans over multiple agencies and DOR departments which is a challenge that contributes to DOR’s ability to maintain the appropriate governance structure over financial management of the Organization. Process, procedures, methodologies, and checklists are not documented for the financial accounting and reporting process, accounts are not appropriately reconciled and/or reviewed, management reporting is insufficient to effectively monitor the business, there is heavy reliance on manual general ledger adjustments and supporting spreadsheets, and there are a limited number of individuals with the required expertise to perform the financial accounting and reporting processes.

Deloitte & Touche recognizes that DOR has developed a finance strategy as a part of its overall strategic plan to address the many risks present within this process which includes hiring three experienced financial professionals over the past six months with significant financial accounting expertise to assist with the implementation of this strategy. These financial professionals serve at the management level and have been charged with assessing the current state of the financial accounting and reporting process and developing policies and internal controls to increase efficiency and effectiveness within the areas that support this business process (e.g., cashier operations). To date, several financial accounting procedures have been drafted, macros within spreadsheets have been developed to ease the entry of journal entries into the general ledger, multiple management reports related to monthly budget and expense operations have been developed, close checklist for expense related month-end activities, and efforts to analyze DOR’s portion of the current COA are in process. (“account” refers to any combination of fund and account within DOR business unit, BU90). DOR’s remediation efforts also have included a focus on the reconciliation of the Collections Fund, which is one of the primary revenue clearing accounts. Significant progress has been made toward the reconciliation of this account and the approach will serve as a basis for future account reconciliations and will increase DOR knowledge of how data flows from RPS into the general ledger. These along with other initiatives that relate to the finance strategy will continue over the next few years.

Below are seven detailed observations and recommendations noted that should be considered for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Financial Accounting and Reporting process:

Condition	Cause	Impact	Criteria	Recommendation
Historically, DOR has not effectively managed their section of the Statewide COA and has not utilized the flexibility and capabilities of the current COA to meet the reporting needs of the Organization Currently, the DOR portion of the Statewide COA is maintained within the general ledger system and contains accounts that are used by multiple agencies	DOR has not consistently reviewed the accounts for which they are responsible over the past 10 years. Clear lines of accountability for specific funds do not exist. Therefore, funds exist that may not have been cleared and/or lack usage by DOR DOR did not adequately prepare for the State of Indiana’s transition to the	General ledger transactions cannot be posted at the appropriate level of detail, limiting analysis and reconciliation Without assigned ownership over accounts, transactions and balances may not be reviewed consistently and errors may not be identified	Policies and procedures, standard charts of accounts, and related guidance are updated on a regular basis and distributed across the Organization	DOR should formally develop and execute a plan to redesign and maintain their portion of the Statewide COA DOR portion of the Statewide COA should be reviewed periodically to determine whether organization needs are met. The business environment, statutory requirements, and reporting needs constantly change. The COA should be evaluated to determine if the accounts within DOR portion of the Statewide COA are adequate to meet business needs Management should consider minimizing the

Condition	Cause	Impact	Criteria	Recommendation
<p>The DOR portion of the COA holds approximately 1200 accounts, including accounts which have not been used within the last three years</p> <p>Chart fields available for usage within the general ledger are inconsistently utilized and often times left blank by DOR accounting staff that enter journal entries. Many account attributes can be voluntarily passed by the users and are not utilized to the fullest extent</p> <p>General ledger accounts do not have subledgers and do not contain detail needed to perform proper subledger to general ledger reconciliations</p> <p>Account ownership has not been clearly identified and assigned for each account</p>	<p>PeopleSoft general ledger Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>			<p>number of accounts and funds within DOR portion of the Statewide COA and establish purging guidelines. Accounts that are inactive for 7 years or more should be removed from the COA Account definitions should be established for each fund within DOR portion of the Statewide COA and documented within the general ledger glossary. The glossary should be reviewed and approved annually and as needed by the CFO and Commissioner. Account descriptions within DOR portion of the Statewide COA should correspond with the definition within the Glossary</p> <p>Identification of account owners is required for each account within the DOR portion of the Statewide COA, including new account additions in order to establish account responsibility. Specific roles and responsibilities within the Organization should be defined to identify appropriate access to the general ledger system</p> <p>Subledgers must be created for balance sheet accounts within DOR's portion of the Statewide COA and ownership for each subledger must be assigned</p>
<p>Timely reconciliations are not consistently being performed by DOR for their general ledger funds, balance sheet accounts, and revenue disbursement calculations</p> <p>Reconciliations between RPS and the general ledger are not consistently performed</p> <p>Clearing accounts in general ledger have not been reconciled. These balances are a result of old transaction data that was posted or adjusted inaccurately and never cleared or reconciled</p> <p>DOR has to rely on IT to run queries in order to obtain transactional level detail to perform account reconciliations</p>	<p>Account reconciliation policies and procedures have not been consistently applied across the Organization</p> <p>DOR has not consistently reviewed the accounts for which they are responsible over the past 10 years. Clear lines of accountability for specific funds do not exist. Therefore, funds exists that may not have been cleared and/or lack usage by DOR</p> <p>DOR did not adequately prepare for the State's transition to PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully</p>	<p>Accounts are not analyzed and reviewed regularly by management for trends and expected movement; reconciliation of final distributions is not performed; errors may not be identified and corrected in a timely manner</p> <p>Unbilled revenue, Suspense, A/R Clearing, and Clearing accounts related to revenue may not be reconciled monthly to clear and post amounts to the appropriate accounts</p>	<p>Reconciliations for all significant accounts are performed properly, prepared on a timely basis, and independently reviewed. Issues identified are resolved and recorded in the general ledger on a timely basis</p>	<p>DOR should perform timely account reconciliations</p> <p>Account reconciliation policies and procedures should be developed and adopted by DOR that include:</p> <ul style="list-style-type: none"> Methodology in how, when, and which accounts should be reconciled Formal review process Thresholds and variance levels for exception identification and reporting Process to adjust financial information based on reconciliations performed Subledger detail must be reconciled monthly to the general ledger by the designated owner of the account. Reconciliations of the subledgers must be reviewed The monthly clearing or reconciliation of all suspense accounts is required. Uncleared balances should be explained and reconciled in accordance with the closing policy and procedures. Reconciliations should be reviewed and approved by management

Condition	Cause	Impact	Criteria	Recommendation
	utilized			
<p>DOR does not have an established monthly close process</p> <p>Closing deadlines are not being consistently met by DOR accounting operations</p> <p>The close process relies heavily on the entering of all journal entries into the general ledger by multiple agencies</p> <p>Processing delays and research of unknown transactions has caused multiple adjustments after the period close</p> <p>Monthly close checklist and calendar has only been documented for expense and budget operations. This checklist was developed and is maintained separately from the closing schedule developed by AOS</p>	<p>Documented monthly close calendar and checklist does not identify all integral tasks required for the monthly close process</p> <p>Manual manipulation of source data is required to post journal entries to the general ledger</p> <p>DOR did not adequately prepare for the State's transition to PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>Financial processes and procedures that are not well established and documented may result in lack of responsibility and accountability within the Organization and misreported financial information</p>	<p>Management establishes a well-defined process for financial accounting and reporting based on the specific characteristics of the Organization. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analyses) are formally documented, approved, and reviewed on a regular basis</p>	<p>The monthly close process should be established for DOR accounting operations. A comprehensive monthly close calendar and checklist should be utilized as a tool to identify and monitor key tasks required for the monthly, quarterly, and annual close process:</p> <p>Data entry rules for entering transactions should be more clearly and consistently defined, thereby reducing tedious analysis and manual adjustments</p> <p>Monthly close calendar should be in place to identify key tasks for the monthly, quarterly, and annual close process</p> <p>A monthly soft close process should be implemented to consolidate information as it becomes available</p> <p>All tasks identified in the monthly close calendar and checklist should be completed by period close date in accordance with the closing policy and procedures established by the AOS</p> <p>All journal entries identified in the monthly closing calendar, reconciliations and tasks must be completed prior to the final close of the general ledger</p> <p>A monthly review and reconciliation of all balance sheet accounts is required to be performed by the designated reviewer per the monthly close calendar. All reconciliations identified in the monthly close calendar should be completed by the period close date in accordance with the closing policy and procedures established by the AOS</p> <p>The establishment of a process to report any incompleteness or delay in completion of tasks, reconciliations, and/or journal entries to the financial reporting department during the closing period is required</p> <p>Monthly close calendar must be reviewed for timely completion of tasks before the issuance of financial statements. Monthly close calendar should be electronically retained for auditable evidence of review</p>
<p>There is no variance analysis process for balance sheet accounts in place for DOR</p>	<p>DOR did not adequately prepare for the State's transition to PeopleSoft</p>	<p>Failing to monitor or reconcile accounts may result in errors and incorrect</p>	<p>All required analyses are prepared accurately and consistently in accordance</p>	<p>A process of review of budgets and variances should be established. Account owners should be contacted for explanations regarding</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>DOR accounts are not analyzed for unusual trends and inaccuracies</p> <p>Thresholds and exception reporting criteria have not been developed</p> <p>There is no process to review and analyze suspense/clearing accounts. These accounts have limited restrictions as to what should be entered, who has access, and who has the responsibility to clear the amounts</p> <p>Reports with incomplete or inaccurate information have been distributed and relied upon either by the DOR or other agencies</p>	<p>general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>transactions that remain undetected and unresolved. This may result in a misstatement of revenue</p> <p>If financial performance and operational effectiveness are not measured, inefficiencies and opportunities for improvement are not identified</p>	<p>with the entity's defined performance measures. Necessary adjustments are identified and documented</p>	<p>fluctuations and significant differences in account balances. These explanations will subsequently help with the development of disclosures and management reporting for the Organization:</p> <p>Balance sheet and income statement accounts should be analyzed on a monthly basis to assess variances to prior month and identify unusual items. These analyses should be reviewed by management. The monthly variance analysis must be performed by the period close date in accordance with the closing policy and procedures established by the AOS</p> <p>Account Variance parameters for each account and Exception reporting policies to include materiality and thresholds should be defined and utilized at the conclusion of close to validate financial results</p> <p>Consideration should be made for automating key analytics and variance reporting by leveraging system functionality and reports</p> <p>A quarterly variance analysis on consolidated financials should be prepared and reviewed and approved</p>
<p>Financial Accounting and Reporting policies and procedures have not been established and documented by DOR:</p> <p>There is no consistent understanding of the financial accounting process across the Organization</p> <p>Accounting policies and procedures have not been created and new procedures have not been consistently implemented across the Organization. New procedures and policies have been drafted, but are still pending review and implementation</p> <p>Accounting policies and procedures drafted for the usage and maintenance of the general ledger accounting are not regularly utilized by DOR</p>	<p>Due to lack of financial accounting and reporting expertise, policies such as journal entry processing, have not been established</p> <p>DOR did not adequately prepare for the State's transition to PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>Financial processes and procedures that are not well established and documented may result in lack of responsibility and accountability within the Agency and misreported financial information</p>	<p>Policies and procedures, standard charts of accounts, and related guidance are updated on a regular basis and distributed across the Organization</p>	<p>DOR should establish a set of financial accounting and reporting policies as a guide to the financial accounting and reporting process. Accounting Procedures should support accounting policies developed and specifically detail step-by-step tasks related to accounting operations. These policies and procedures should have assigned ownership to enhance accountability and reviewed at least annually to be adjusted for any changes in operations.</p> <p>Typical financial accounting and reporting policies include: accrual, aging and write-off, creation and review of routine versus non-routine transaction, chart of accounts governance and maintenance, Exception Reporting and accounting Adjustment Policies</p> <p>The AOS and SBOA who are responsible for the general ledger accounting system and development of the Comprehensive Annual Financial Report (CAFR) should be involved in DOR's development of significant accounting policies (e.g., revenue accruals, aging, and reconciliation policies)</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>There is limited review of journal entries and the process for the review and approval of journal entries has not been formalized. Supporting detail for journal entries is not consistently retained and the purpose of journal entries is not logged within the general ledger</p> <p>There is heavy reliance on Spreadsheets for the generation of journal entries and input of financial information into the general ledger. These spreadsheets are owned by multiple agencies across the Organization</p> <p>Subledgers with transactional detail to support final accounting numbers submitted through journal entries in the general ledger do not exist</p> <p>Journal entry review process is inconsistent across agencies and journal entry processing logs are not consistently reviewed for accurate entry and appropriate authorization</p> <p>There is no formal process to communicate errors identified with transactional and journal entry processing and the corresponding adjustments are not always documented</p>	<p>There is no interface between the general ledger and RPS and reconciliations are not consistently performed between the two systems; therefore, manual manipulation of RPS data must take place prior to entry of revenue transactions into the general ledger. Knowledge sharing regarding this process does not exist and accountability has not been established</p> <p>Current systems do not have financial accounting capabilities necessary to produce journal entries and do not have the level of detail required to research transactions that support journal entries</p> <p>Due to lack of financial accounting and reporting expertise, policies such as journal entry processing, have not been established</p> <p>DOR did not adequately prepare for the State's transition to PeopleSoft general ledger. Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized</p>	<p>Journal entries that are not supported with documentation or reviewed prior to posting may result in inaccurate posting due to data entry errors or fraudulent activity</p>	<p>All Journal Entries are reviewed and properly supported prior to posting within the general ledger</p>	<p>Journal Entries must be reviewed against supporting documentation and supporting documentation must be retained for auditable evidence of review in accordance with the closing policy and procedures</p> <p>Criteria to identify critical spreadsheets and reports used during the financial accounting and financial reporting process should be established. A process for the updating and review of critical spreadsheets used during the financial accounting and financial reporting processes is required</p> <p>A spreadsheet inventory that identifies owners and details the purpose of each spreadsheet should be maintained and reviewed at least quarterly</p> <p>Management should use an integrated accounting system or tool which supports standardization and automation of inputs for financial accounting purposes</p>
<p>DOR has no process in place to review financial statement reported amounts for DOR specified funds accounts</p> <p>Aging Reports and detail regarding DOR liabilities is unable to be pulled from RPS; Aging and Write-off policies and procedures do not exist</p> <p>Various clearing accounts within the general ledger are reporting unidentified balances at year-end</p>	<p>There is no integrated financial accounting system to support the generation of monthly, quarterly, and annual financial reports specific to DOR operations; Reliable source data is not available within current system to feed financial reports</p> <p>DOR did not adequately prepare for the State's</p>	<p>The general ledger does not tie to imported amounts spreadsheets and source data systems used as the basis for financial statement reporting.</p> <p>Failure to present accurate financial information may result in an incorrect decision making by parties that rely on the financial statements</p>	<p>Internal financial statement packages are reconciled to the trial balance and the general ledger; Any post-close adjusting journal entries are posted to the final financial package</p>	<p>Preliminary financial reports should be reviewed to analyze account balances prior to period close. Information technology should support the creation of applicable reports and reliable and timely source data is needed to produce reports:</p> <p>Supporting detail and source systems are required for all summary accounts in the general ledger</p> <p>Data used for internal and external reporting should come from source systems that</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>due to unknown historical transactions</p> <p>DOR specific trial balance, balance sheet, and income statements to review general ledger activity and account balances is not regularly produced and in some cases unable to be produced to be reviewed by the Organization</p> <p>Reports with incomplete or inaccurate information have been distributed and relied upon either by DOR or other agencies</p>	<p>transition to PeopleSoft general ledger.</p> <p>Consequently, some DOR employees lack the required training for the usage of PeopleSoft and available capabilities are not fully utilized. The CAFR process and final reported balances in the general ledger are owned by the AOS; therefore, DOR has little to no insight into the process</p>			<p>integrate with the general ledger</p> <p>Internal and external reports should be automated through the general ledger</p>

Perform Internal Audit

Perform internal audit was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to perform independent risk assessments, develop risk-based audit plan, perform and report audits, and conduct special investigations and projects.

The internal audit function has not been utilized by DOR since 2010. Resources have been dedicated to initiatives currently in place to address recent pressing issues. However, DOR’s future state plan is to adopt a compliance audit program and rebuild the internal audit function to assist with risk mitigation across the Organization. Approval has been granted for two positions to support the internal audit function.

Deloitte & Touche recommendation is to reinstate internal audit and utilize this as a supplement to current ongoing initiatives. There are different types of internal audit structures (e.g., co-sourcing, outsourcing) to be considered as well. An official control framework and related methodology should be formulated by the Organization. Internal audit would serve as a benefit to the Organization to increase process efficiencies, discipline, and accountability throughout DOR operations.

Below is one detailed observation and recommendation noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Perform Internal Audit process:

Condition	Cause	Impact	Criteria	Recommendation
An internal audit function has not been operational within DOR since 2010. Resources have been dedicated to other initiatives	DOR’s only internal auditor was averted from their current role to focus on the two existing errors within DOR	Without an internal audit function, management cannot be assured that internal controls are operating as intended nor that they are achieving their objectives in the following internal control categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with laws and regulations, and safeguarding of Assets	Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes Internal audit is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice	Internal audit should be reinstated and the internal audit initiative needs to be tailored and carefully planned to be complementary and supportive of DOR’s values, objectives and key initiatives. Moreover, internal audit should be risk based so IA is properly focused on areas meaningful to its constituents. The critical success factors to starting an internal audit function are: Clearly defined expectations and performance measures of internal audit function Creation of an internal Charter that describes the mission and role of the internal audit function and outlines the reporting structure Reinforces management and Audit Committee support for the function Aligns with the IIA Standards Regular and unencumbered access to the Audit Committee Senior Management Support Utilization of a risk based approach Adapting a staffing alternative that best fits with the organizational culture (e.g., In House function, Co-sourcing, and Outsourcing)

Legal

Legal was identified as a medium-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR's capabilities to analyze, interpret, and evaluate legislation for impact, issue legal opinions on tax issues, resolve protests, manage bankruptcies, and manage taxpayer advocacy, including investigation of issues and resolution of appeals and disputes.

Legal has developed effective processes for managing bankruptcy claims, providing legal opinions on tax issues, resolving protests and managing litigation. Legal utilizes a federal bankruptcy tracking system, to track all bankruptcy cases. Automatic updates regarding bankruptcy cases are electronically sent to the legal department, and anything affecting a claim is updated within the claim's folder maintained by legal. Legal also oversees protests and settlements. They are tracked in a stand-alone system, protest tracking. Performance is tracked via blue sheet reports, produced in protest tracking. Settlements are tracked in a spreadsheet; as they become a case, they are further documented in their own hard copy file.

Based on the results of the Controls and Performance Audit, it appears that the Legal function processes are operating. A potential benefit for the legal department would be the development of a knowledge exchange database of settlement and case outcomes that could be broken down based on situation.

Report Administration

Report Administration was identified as a high-risk key business process during the risk assessment previously performed. The Controls and Performance Audit included an assessment of DOR’s capabilities to identifying and managing key reports, maintaining and distributing reports, and developing and approving ad hoc requests.

The reporting administration process is tasked with providing information requests to both internal and external entities. These entities may include functions within DOR, other State agencies and departments, local government agencies, universities, news sources, etc. Reporting provides both standard and ad hoc reports. They rely primarily on Data Warehouse as their reporting tool. There is no centralized ownership of the reporting process, and there is a lack of a robust reporting strategy and documented procedures. Furthermore, the differences between Data Warehouse and RPS reports cannot be explained timely. DOR has begun remediation efforts to develop reporting processes and procedures, while improving their data management. These new procedures being developed were not tested due to timing restraints.

Below is one detailed observation and recommendation noted that should be considered in order for DOR to demonstrate an underlying control environment with supporting technologies that allow for efficiencies, discipline, and accountability related to the Report Administration process:

Condition	Cause	Impact	Criteria	Recommendation
<p>There is no documented records request or reporting process. There are no reporting policies and procedures in place and a listing of key management reports does not exist. Record requests are generally produced on an ad hoc basis and are not regularly logged and reviewed to identify and trend reporting needs of process owners</p> <p>Lack of consistent/defined policy to protect PII</p> <p>Quality reviews of record requests are inconsistently performed and no approval is required for the release of reports. The County Statistics Report related to the revenue distribution requested by the end — user contained inaccurate collections data from RPS. Reporting managers and supervisors may spot check the accuracy of reports through comparison to RPS results or review queries that generate the reports; however, this process is limited in nature and inconsistently documented</p> <p>Data Warehouse and RPS report differences that cannot be explained timely</p> <p>Reports are generated based on financial information within general ledger. There is no interface between RPS and general ledger. Therefore, revenue reported within RPS is manipulated within spreadsheets in order to be reflected within the general ledger. There have been instances identified by the Tax Analyst and communicated to DOR regarding inaccurate financial information reflected within the general ledger. Once</p>	<p>DOR does not have a robust reporting and records request policy and procedures</p>	<p>No formal standard procedures for the reporting process may be in place resulting in the Organization being susceptible to internal and external consequences from misinformation</p> <p>Reports with incomplete or inaccurate information have been distributed and relied upon either by the DOR or other agencies</p> <p>Errors in reported data can lead to a misstatement of accounts receivable and revenue, inaccurate tax calculations and incorrect revenue forecasting</p>	<p>Established record request/reporting strategy, procedures, policies, and tools</p> <p>Information is scrubbed of PII and there is a process to authorize the release of potentially sensitive information</p> <p>Reporting manager checks reports for accuracy by comparing to RPS results and consistently documented. Intermediaries also eyeball results before sending to final user</p> <p>Reporting manager checks reports for accuracy by comparing to RPS results and consistently documented. Intermediaries also eyeball results before sending to final user</p>	<p>DOR should develop record request/reporting strategy, procedures, and tools (work logs with proper access and fields) that allow them to properly manage and monitor the records request process</p>

Condition	Cause	Impact	Criteria	Recommendation
<p>communicated to DOR, adjustments within RPS are made to correct these entries; however, the communication of these noted issues and adjustments have not been documented or tracked. Adjustments can take between one day and three months to fix within the system for accurate reporting within the general ledger</p>				

Appendix A — Updated Key Business Process Maps

Deloitte & Touche began the initial financial operations risk assessment of DOR by gaining an understanding of DOR’s key business processes through interviews with key DOR personnel and review of relevant policies, procedures, and business process-related documentation. Key personnel from other organizations who work with or depend upon DOR’s support to accomplish their mission were also interviewed. The information was used to develop a pictorial map of DOR’s key business processes, which were categorized as follows:

- Operational processes, which are those related to DOR’s key mission of collecting and accounting for taxes (returns processing, collections, enforcement, taxpayer advocacy, etc.)
- Infrastructure processes, which are those that relate to the support and management of DOR (information systems, financial reporting, human resources, etc.)

Once an understanding of DOR’s key business processes was gained, Deloitte & Touche then identified DOR-specific risks that were collected through the interviews and combined those with the inherent risks that are pervasive within revenue agencies and similar governmental organizations.

For each sub process, Deloitte & Touche established a ranking of the vulnerability of DOR to the various risks within the subprocess and the significance of the impact the risk could have on the Organization. An overall ranking of high, medium, or low risk was then assessed for each subprocess. High-risk subprocesses were color-coded red, medium-risk subprocesses color-coded yellow and low-risk subprocesses color-coded green. These risks rankings were then captured on the Controls and Performance Audit plan by color-coding each area with its overall risk score.

During the Controls and Performance Audit, these risk rankings were revisited and updated according to the knowledge gained and results of the procedures performed. In many subprocesses the risk color has changed and are reflected on the next pages. The first column reflects the original risk assessment ranking while the second column reflects the ranking after completion of the Controls and Performance Audit.

Process map color legend	
	Low risk/low priority
	Medium risk/priority
	High risk/high priority
	DOR shared responsibility reflects the risk relative to DOR

Indiana Department of Revenue

Risk assessment heat map — Operational

Taxpayer registration and education	Risk assessment	Audit result	Perform front-end processing	Risk assessment	Audit result	Process tax return data	Risk assessment	Audit result	Process receipts	Risk assessment	Audit result	Perform billing activities	Risk assessment	Audit result	Issue refunds or credits	Risk assessment	Audit result		
Register individuals or businesses	Yellow	Red	Receive physical documents and payments	Yellow	Green	Verify accuracy and completeness of information as received	Yellow	Yellow	Verify and post payments to accounts	Yellow	Yellow	Identify billing candidates	Yellow	Yellow	Identify refund/credit candidates	Yellow	Yellow		
Monitor licensing and bonding requirements	Green	Green	Receive electronic payments	Yellow	Green	Apply business rules to data and identify errors	Yellow	Red	Resolve unallocated payments	Red	Red	Generate and send bills (first notice)	Yellow	Yellow	Approve refund/credits	Red	Yellow		
Discover non-registered taxpayers/customers	Yellow	Red	Process document exception/transactions	Yellow	Yellow	Identify and perform exception review	Yellow	Red	Verify financial records update	Yellow	Yellow	Process appeals	Green	Green	Identify and process offsets	Yellow	Yellow		
Design and maintain forms and procedures	Green	Green	Screen and prepare documents for processing	Yellow	Yellow	Post to accounts receivable subledger and general ledger	Red	Red	Process returned items	Yellow	Yellow				Generate and send correspondence	Yellow	Yellow		
Provide initial information and resources to taxpayers/customers	Green	Green	Image documents/transactions	Green	Green	Generate and send correspondence	Yellow	Yellow	Post to subledger and general ledger	Red	Red				Issue refunds/credits	Yellow	Yellow		
Maintain registration data integrity	Yellow	Yellow	Prepare remittances for deposit	Green	Green				Compute account balance	Yellow	Yellow								
			Prepare documents for posting	Yellow	Green														
			Deposit funds	Green	Green														
			Reconcile bank deposits with gl posting	Red	Green														
			Process returned mail	Yellow	Yellow														

Indiana Department of Revenue

Risk assessment heat map — Operational

Provide taxpayer assistance	Risk assessment	Audit results	Perform collection activities (past due items)	Risk assessment	Audit results	Perform enforcement activities	Risk assessment	Audit results	Perform Tax administration and analysis	Risk assessment	Audit results	Manage revenue accounting and distributions	Risk assessment	Audit Results
Develop and disseminate customer education	Green	Green	Identify overdue accounts	Red	Yellow	Identify audit candidates	Green	Yellow	Administer legislation and administrative rules	Red	Yellow	Process estimated distributions	Red	Red
Receive and document inquiries/appeal	Green	Green	Best information available (BIA)	Red	Red	Schedule audits and notify taxpayers	Green	Green	Develop policies and strategies	Red	Yellow	Process final distributions	Red	Red
Discuss inquiry/appeal with taxpayer/customer	Green	Green	Review accounts and prioritize collection activities	Red	Red	Gather and review account information	Green	Green	Develop operational performance measures	Red	Yellow	Process revenue reports	Red	Red
Notify other organizations of inquiry	Green	Green	Send notice of non-payment	Yellow	Yellow	Perform tax audits	Yellow	Yellow	Measure and report operational performance	Red	Red			
Investigate issue	Green	Yellow	Negotiate and establish payment plan	Yellow	Yellow	Develop audit assessments	Green	Yellow	Analyze and develop compliance strategy	Red	Red			
Recalculate and adjust account balance	Green	Green	Transfer overdue accounts to a collection agency	Yellow	Yellow	Recalculate account balance	Yellow	Yellow	Forecast tax revenue (OMB)	Yellow	Yellow			
Generate and send correspondence	Green	Yellow	Manage currently uncollectible	Red	Red	Document findings	Green	Green	Review and revise policies and procedures	Yellow	Yellow			
			Manage warrant processing	Yellow	Red	Generate and send notification	Green	Green						
			Collect overdue accounts	Red	Yellow	Process appeals	Yellow	Yellow						
			Write-off account	Yellow	Red	Conduct discovery and investigate activities	Green	Green						

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Risk assessment heat map — Infrastructure

Manage financial accounting and reporting	Risk assessment	Audit results	Perform Internal audit	Risk assessment	Audit results	Legal	Risk assessment	Audit results	Report administration	Risk assessment	Audit results
Develop finance strategy	Red	Yellow	Perform independent agency risk assessment	Red	Yellow	Provide legal opinion on tax issues	Green	Green	Identify and manage key reports	Red	Yellow
Develop and maintain budget	Yellow	Yellow	Develop risk based audit plan	Red	Yellow	Resolve protests	Green	Green	Report request, development, and approval	Red	Red
Maintain chart of accounts	Red	Red	Scope auditable areas	Red	Yellow	Manage litigation	Green	Green	Report maintenance	Red	Red
Process accounting transactions	Red	Red	Perform audits	Red	Yellow	Support contracting	Green	Green	Report distribution	Red	Yellow
Manage grants	Yellow	Yellow	Report results	Red	Yellow	Manage bankruptcies	Yellow	Yellow			
Manage the general ledger	Red	Red	Special investigations and projects	Green	Green	Taxpayer advocate					
Conduct financial analysis	Red	Red				Investigate issue	Yellow	Green			
Perform the financial close	Yellow	Yellow				Resolve appeals/disputes	Yellow	Green			
Preparation of financial Statements	Yellow	Yellow									

Indiana Department of Revenue

Risk assessment heat map — Infrastructure

Plan for and manage the organization	Risk assessment	Audit results	Manage organizational design	Risk assessment	Audit results	Manage information technology	Risk assessment	Audit results
Develop strategic plan	Red	Yellow	Define organizational design strategy	Yellow	Green	IT strategy — Short-term and long-term	Red	Red
Develop visions, goals, and performance measures	Yellow	Yellow	Plan and manage HR programs and plans	Green	Green	Change management — applications and databases	Red	Red
Develop agency policies and procedures	Yellow	Yellow	Design and maintain organizational structure	Red	Yellow	Information system security — across all layers	Red	Red
Manage risk	Red	Red	Manage recruiting, hiring and integration	Red	Yellow	DOR information system operations	Yellow	Red
Assess and respond to fraud, waste and abuse	Yellow	Yellow	Career and succession planning	Red	Yellow	IOT data center operations	Yellow	Yellow
Manage agency performance	Red	Yellow	Develop and train workforce	Red	Yellow	Develop and manage IT vendor relationships	Yellow	Red
Assess and respond to organizational and management issues	Red	Yellow	Manage compensation and classification (including performance measurement)	Green	Green	Support and train users	Red	Yellow
Internal and external communications	Yellow	Yellow	Maintain benefits and enrollment	Green	Green			
Monitor the external environment	Red	Yellow	Administer benefits	Green	Green			
			Manage and disburse payroll	Green	Green			
			Manage employee relations and communications	Green	Green			
			Collect and monitor time and expense	Green	Green			

