

ANALYSIS

Item 78: Department of Revenue Create Internal Controls Office

Analyst: Paul Siebert

Request: Allocate \$721,486 General Fund, increase Other Funds expenditure limitation by \$180,372, and authorize the establishment of seven positions (3.21 FTE) to create a new Internal Controls Office.

Analysis: The Department of Revenue (DOR) is bringing back a request to create and fund a new Internal Controls Office that was considered and not funded during the 2022 session. The Department's January 4, 2022 request letter submitted in preparation for the 2022 regular session asked for nine positions to create the Internal Controls Office. The current request includes seven of those same positions, with two internal auditor positions removed. Of the seven requested positions two are managers, an Internal Control Manager and a Compliance Manager. The five staff positions requested are an Agency Risk Coordinator, Internal Compliance, IT Compliance, Internal Policy Analyst, and a Business Process Improvement Coordinator. The Department states the staffing levels are based on best practices according to the US Accountability Office's Green Book, also known as the *Standards for Internal Control in the Federal Government*. The best practices staffing level produced by the standard would include the two internal auditor positions; however, these were dropped by the Department to scale down the request.

DOR states the requested positions are needed to monitor and mitigate cybersecurity, as well as operational risks. However, only one of the seven positions requested is an IT related position. The remaining positions appear to be dedicated to mitigating operational risk. Oregon switched to centralized provision of cybersecurity services with the passage of SB 90 (2017), which made the Oregon State Chief Information Officer primarily responsible for cybersecurity in the state. Cyber Security Services (CSS) provides these services. Since the transfer of responsibilities, the Legislature has made significant investments in CSS each biennium. Last biennium the Legislature approved the establishment of 12 high level IT security positions that would report to CSS, but be embedded in large agencies. Those positions are hired and in the process of being deployed to agencies. DOR is one of the agencies that will receive such a position. It is unclear how the duties and responsibilities of this position would interact with the IT Compliance position included in this DOR request. There is likely a need to improve operational controls at DOR, as Oregon has historically underfunded internal audit and operational controls functions. However, these are not the types of positions agencies regularly hire to respond to emergencies, but rather the type of positions funded through policy option packages as part of an agency's budget request.

The Legislative Fiscal Office (LFO) notes that the positions in this request do not differ in any significant way from the request that was brought forward five months ago in preparation for the 2022 regular session. DOR has reported no material changes in the agency's operating environment from what was present five months ago when the initial request was made. The Department's basis for an Emergency Board request is that a cybersecurity breach or ransomware attack would be a catastrophic emergency; however, neither of these things have happened, just the possibility that they may. LFO is not aware of any evidence indicating these events are any more likely to occur now than they were five months ago when this request was first brought forward. Given the limited resources available to the Emergency

Board to address emergencies during the interim, LFO does not recommend that General Fund be allocated to support the request.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board deny the request.

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Department of Revenue
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Request: Allocate \$721,486 General Fund from the State Emergency Fund, increase Other Funds expenditure limitation by \$180,372, and establish seven permanent full-time positions (3.21 FTE) to monitor and mitigate cybersecurity and operational risks.

Recommendation: Approve the request with the following modifications: Allocate \$617,350 General Fund from the State Emergency Fund, increase Other Funds expenditure limitation by \$154,377, and establish seven permanent full-time positions (3.21 FTE) to monitor and mitigate cybersecurity and operational risks.

Discussion: The Department of Revenue (DOR) is requesting to establish an Internal Control Office to increase its capacity to monitor and mitigate cybersecurity and operational risks. The new Office would be housed within the Directors Office and be composed of compliance, risk, and business continuity functions. The Office will consist of five new positions and six existing positions. A newly established position will serve as the Internal Control Manager to lead the team to institute effective internal controls in the agency to ensure compliance with rules and identify operational efficiencies. DOR is requesting to establish the following new positions in the Internal Control Office: Internal Control Manager (PEMF), Compliance Manager (PEMD), Agency Risk Coordinator (OPA3), Internal Compliance (CS3), IT Compliance (ISS8).

This request is related to a 2019 Secretary of State audit conducted to assess critical security controls at DOR. The Department administers numerous tax programs, including Oregon's personal income, corporate excise, recreational marijuana, and cigarette and other tobacco tax programs. The Agency collects highly sensitive personal financial information and data through each of these programs and is responsible for protecting this data. One of the recommendations identified by the 2019 Secretary of State audit was for DOR to improve its security management program and remedy weaknesses.

DOR is also requesting to add two additional positions to the Operations team in the Director's Office. A newly established Business Process Improvement Coordinator (OPA3) would be tasked with identifying risks and compliance deficiencies and advise agency leadership on potential improvements to business processes. A newly established Internal Policy Analyst (OPA3) would be established to manage the agency's policies and procedures using risk assessments, compliance reviews and audits and to ensure compliance.

Since its original request, DOR has reduced its request to \$617,350 General Fund and \$154,337 Other Funds expenditure limitation to reflect updated pricing for the services and supplies and capital outlay needs. If approved all positions will be continued into the 2023-25 biennial budget for the agency at an anticipated cost of roughly \$1.5 million General Fund and \$0.4 million Other Funds expenditure limitation.

Legal Reference: Allocation of \$617,350 General Fund from the State Emergency Fund to supplement the appropriation made by chapter 441, section 1(1), Oregon Laws 2021, for the Department of Revenue, Administration for the 2021-23 biennium.

Increase the Other Funds expenditure limitation established by chapter 441, section 2(1), Oregon Laws 2021, for the Department of Revenue, Administration by \$154,377 for the 2021-23 biennium.



Oregon

Kate Brown, Governor

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May 2, 2022

Senator Peter Courtney, Co-Chair
Representative Dan Rayfield, Co-Chair
Joint Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairs:

Nature of the Request

The Department of Revenue (DOR) is requesting budget and position authority to improve the security of taxpayer financial and personal information through increased cybersecurity and operational controls. Specifically, the department requests a \$721,486 General Fund appropriation, an increase of \$180,372 Other Funds expenditure limitation, and the establishment of seven permanent, full-time (3.21 FTE) positions for the 2021-23 biennium in order to monitor and mitigate cybersecurity and operational risks.

Agency Action

DOR is responsible for administering 57 revenue streams through the work of nearly 1,000 employees. During the 2019-21 biennium, the department collected and distributed over \$34 billion. The department maintains personal financial information, including bank accounts, of more than five million people in its information technology system. The department is responsible for protecting this highly sensitive data.

Secretary of State audits in 2019 recommended the department improve its internal controls-- policies, procedures, monitoring, and training to improve cybersecurity. Effective internal controls are essential to a secure, efficient, accountable, and resilient organization.

The agency is requesting the following new positions to improve cybersecurity and reduce operational risks. The projected start date for the positions is August 1, 2022.

- Internal Control Manager (PEMF)
- Compliance Manager (PEMD)
- Agency Risk Coordinator (OPA3)
- Internal Compliance (CS3)
- IT Compliance (ISS8)
- Internal Policy Analyst (OPA3)
- Business Process Improvement Coordinator (OPA3)

Action Requested

The department requests that the legislature appropriate \$721,486 General Fund, increase its Other Funds expenditure limitation by \$180,372, and approve the establishment of seven permanent, full-time (3.21 FTE) positions within the Director's Office under Administration, starting July 1, 2022, to establish an Internal Control Office in order to monitor and mitigate cybersecurity and operational risks.

Legislation Affected

Allocation of \$721,486 to supplement the appropriation established by chapter 441, Section 1 (1) Oregon Laws 2021 (enrolled SB 5537) made to the Department of Revenue, Administration, for the 2021-23 biennium. Increase the Other Funds expenditure limitation established by chapter 441, section 2 (1) Oregon Laws 2021 (enrolled SB 5537) for the Department of Revenue, Administration, by \$180,372 for the 2021-23 biennium.

Sincerely,

A handwritten signature in blue ink that reads "Betsy A. Imholt". The signature is written in a cursive, flowing style.

Betsy Imholt
Director