The background of the top half of the page is a large, light blue, semi-transparent seal of the State of Oregon. The seal features an eagle with wings spread, perched on a shield. Below the shield is a sun rising over a landscape with a ship on the left and a plow on the right. The words "STATE OF OREGON" are written in a circular path around the seal, and the year "1859" is at the bottom.

State of Oregon

**Oregon Department of Transportation:
The Oregon Fuels Tax System
Accurately Assesses and Collects Fuels
Taxes for State and Local Jurisdictions**

September 2017

Secretary of State
Dennis Richardson

Audits Division, Director
Kip Memmott

Report 2017 – 18

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ODOT: The Oregon Fuels Tax System Accurately Assesses and Collects Fuels Taxes for Oregon and Local Jurisdictions

Report Highlights

The Secretary of State's Audits Division found that the Oregon Fuels Tax System (OFTS) accurately assesses and collects fuels taxes for Oregon and local jurisdictions, collecting over \$564 million in 2016. However, processes for issuing fuels tax refunds and system design flaws result in minor overpayments and reporting inaccuracies. Additionally, ODOT should enhance processes for testing system backup files, granting and monitoring user access, setting user password parameters, implementing safeguards over personally identifiable information, and identifying security weaknesses.

Background

In 2013, ODOT contracted with Avalara to implement a new fuels tax system for \$2.8 million, replacing an outdated paper based system previously used to handle Oregon Fuels Tax returns.

Purpose

The purpose of our audit was to review and evaluate the effectiveness of key general and application controls that protect and ensure the integrity of the Oregon Fuels Tax System and its data.

Key Findings

1. OFTS accurately calculates, assesses, and collects fuels tax for the state of Oregon and local jurisdictions, but manual processes governing refund payments should be improved to ensure accurate refund payments.
2. Application design flaws result in a small number of refund overpayments and minor reporting inaccuracies.
3. Changes to OFTS computer code are appropriately managed to reasonably ensure that the system and its data will not be compromised as the result of a code change.
4. System back-up processes have never been tested to ensure system data can be restored in the event of a disruption.
5. Security weaknesses exist in processes for granting and reviewing system access, monitoring activities of internal and third-party users with significant system access, and identifying and remediating system security vulnerabilities. In addition, password parameters should be more robust, and safeguards protecting some Personally Identifiable Information (PII) need improving.

Recommendations

The report includes nine recommendations to the Oregon Department of Transportation focused on addressing weaknesses in the refund review processes, fixing system design flaws, testing backups, and correcting security weaknesses.

The Department of Transportation agreed with our findings and recommendations. The agency's response can be found at the end of the report.



About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division is authorized to audit all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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The courtesies and cooperation extended by officials and employees of the Oregon Department of Transportation during the course of this audit were commendable and sincerely appreciated.



ODOT: The Oregon Fuels Tax System Accurately Assesses and Collects Fuels Taxes for Oregon and Local Jurisdictions

Introduction

ODOT Uses Fuels Taxes for Building and Maintaining Roads and Highways in Oregon

In a campaign to “get Oregon out of the mud,” in 1919, Oregon became the first U.S. state to impose a tax on fuel to fund road building. At 1¢ per gallon, it raised \$342,000 in its first year.



Photo courtesy of the Oregon Department of Transportation.

The Oregon Department of Transportation (ODOT) uses fuels taxes along with other funds from state, federal, county, and city sources, to preserve, improve and operate Oregon’s road system. These taxes are determined in accordance with three principles:

1. Those who use the roads pay for them.
2. Road users pay in proportion to the road costs for which they are responsible.
3. Taxes are used for constructing, improving, and maintaining roads.

Taxes on fuel are applied to all fuel types used to operate motor vehicles on Oregon’s roads and highways. Oregon Revised Statutes (ORS) Chapter 319 gives ODOT the authority to collect motor vehicle taxes, aircraft fuel taxes, and use fuel taxes. Motor vehicle fuel is mostly limited to gasoline and

ethanol blends. Oregon use fuel is defined as diesel, biodiesel, propane, compressed natural gas, and any fuel other than gasoline used in a motor vehicle.

The 2017 Oregon Transportation Package will increase the Motor Vehicle Fuel tax rate by 10¢ over the next 7 years to 40¢ per gallon.

The current tax rates are listed in the table below; however, the 2017 Oregon Transportation Package, passed by the Oregon State Legislature in July 2017, increases the Motor Vehicle Fuel to 40¢ per gallon over the next seven years. The first increase of 4¢ is scheduled to take effect in 2018.

Table 1: 2016 Oregon Fuels Tax Rates

Fuel Type	Tax Rate per Gallon
Motor Vehicle Fuel	30¢
Aviation Gasoline	11¢
Jet Fuel	3¢
Use Fuel	30¢

Collecting fuels taxes

In Oregon, motor vehicle fuels taxes are paid by licensed fuel dealers at the point of “first sale,” or withdrawal. When drivers fill their vehicles at the pump, the purchase price includes the taxes paid by the dealer. The licensed fuel dealer, through filing monthly¹ fuels tax returns, then remits taxes back to the state. Monthly fuels tax returns are due by the 25th of each month.

Licensees have the option to submit fuels tax returns on paper or online through the Oregon Fuels Tax System web portal. All licensees with 1,000 or more transactions are required to submit their fuels tax returns electronically. Any amount owed is also paid at the time of submission. Currently, approximately 80% of fuels tax returns are submitted online. The remaining 20% of returns are either mailed to the department along with payment, or dropped off at lockbox locations at U.S. Bank. All fuels tax paper returns must be entered into the system by ODOT staff.

Within the Financial Services Branch of ODOT, the Fuels Tax Group (FTG) is responsible for administering fuels tax licensing, fuels tax report processing, and collecting fuels tax from Motor Vehicle Fuel dealers and Use Fuel licensees. Fuels tax refund processing, tax compliance audit services, and collecting delinquent accounts are part of these responsibilities. Additionally, the department collects fuels taxes on behalf of some local jurisdictions that have imposed fuels tax ordinances and distributes the monies on a monthly basis. The FTG currently consists of 21 employees, including managers and front line staff.

¹ ORS 319.020 (a): Not later than the 25th day of each calendar month, render a statement to the Department of Transportation of all motor vehicle fuel or aircraft fuel sold, used, distributed or so withdrawn by the dealer in the State of Oregon as well as all such fuel sold, used or distributed in this state by a purchaser thereof upon which sale, use or distribution the dealer has assumed liability for the applicable license tax during the preceding calendar month. The dealer shall render the statement to the department in the manner provided by the department by rule.

New Oregon Fuels Tax System

The Oregon Fuels Tax System (OFTS) went live in July 2015. During calendar year 2016, OFTS processed approximately 14,000 tax returns and collected over \$564 million in fuels tax revenue for the state and local jurisdictions. (See Table 2)

Table 2: 2016 Collection of Fuels Taxes by Jurisdiction

Jurisdiction	Amount
Oregon	\$ 547,863,939
Astoria	\$ 208,401
Canby	\$ 347,158
Coburg	\$ 72,523
Coquille	\$ 91,676
Cottage Grove	\$ 440,181
Eugene	\$ 3,104,372
Hood River	\$ 325,425
Milwaukie	\$ 177,467
Newport	\$ 172,720
Springfield	\$ 1,140,909
Tigard	\$ 788,950
Veneta	\$ 119,249
Warrenton	\$ 325,585
Woodburn	\$ 128,783
Multnomah County	\$ 7,005,247
Washington County	\$ 2,128,607
Total	\$ 564,441,191

The department's previous system relied heavily on paper-driven processes. Fuels tax licensees conducting business in Oregon previously had to submit manual applications, were issued paper licenses, and were required to submit manual reports and supporting documentation to ODOT's central office. FTG personnel manually entered this information into the system and the reports and supporting schedules had to be manually filed for review by fuels tax auditors during an audit.

To decrease their reliance on manual processes, ODOT contracted with Avalara to implement a new fuels tax system for \$2.8 million. This new system was designed to:

- provide electronic filing capability for external users who conduct business with ODOT;
- enable improved business processes and audit capabilities and increase staff productivity through automated workflows; and
- enhance reporting and analytic functionality.

Objectives, Scope and Methodology

The purpose of our audit was to review and evaluate the effectiveness of key general and application controls governing the Oregon Fuels Tax System (OFTS) at ODOT. Our specific objectives were to determine whether:

- information system controls provide reasonable assurance that OFTS transactions remain complete, accurate and valid during input, processing and output;
- changes to OFTS computer code are appropriately controlled to ensure the integrity of information systems and data;
- OFTS files and data are appropriately backed up and can be timely restored when needed; and
- OFTS and its data are protected against unauthorized use, disclosure, or modification.

The scope of our audit included processes for collecting and recording fuels tax and related IT controls that were in effect during calendar year 2016. We conducted interviews with department personnel, observed department operations, and examined available system documentation. To fulfill our audit objectives, we evaluated or tested:

- Fuels Tax returns and data from calendar year 2016;
- processes used to update computer code and supporting documentation for selected changes to the Oregon Fuels Tax System;
- processes and schedules for backing up the system and its data; and
- processes used to provide access to the system, access privileges granted to selected users, and documentation relating to security systems.

To identify generally accepted control objectives and practices for information systems, we used the IT Governance Institute's publication "Control Objectives for Information and Related Technologies," the United States Government Accountability Office's publication "Federal Information System Controls Audit Manual," and Oregon Statewide Information Security Standards.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained and reported provides a reasonable basis to achieve our audit objective.

Audit Results

The Oregon Fuels Tax System Accurately Assesses and Collects Fuels Taxes but Review Processes and System Design Flaws Need Attention

We found the Oregon Fuels Tax System (OFTS) accurately calculates, assesses, and collects fuels tax for the state of Oregon and local jurisdictions and appropriately transfers information to ODOT's accounting systems. However, manual processes governing refund payments should be improved to ensure that all refund payments issued are appropriate. Additionally, application design flaws result in a small number of over-refunds and inaccurate reporting.

Fuels Tax Return Calculated Assessments are Accurate

During calendar year 2016, OFTS processed approximately 14,000 fuels tax returns and collected over \$564 million in fuels tax revenue for the state and local jurisdictions. We determined the system's calculations to be correct for 99.5% of all returns. The remaining 0.5% of records were different from the expected amount due to rounding errors or manual overrides by department staff of system-calculated interest and penalty amounts.

The department receives most fuels tax data from electronic returns uploaded from external systems of the licensee. Additionally, department staff manually enters fuels tax return data and refund requests received through the mail into the system.

Transactions entered and processed through computer systems should go through a variety of manual and automated procedures to ensure they are appropriate. In particular, procedures should ensure only complete, accurate and valid information is entered into a system, data integrity is maintained during processing, and system outputs meet expected results.

To achieve this, OFTS uses Extensible Markup Language (XML) to ensure that uploaded or manually entered data is formatted appropriately and that all of the required information is included in the upload. Additionally, OFTS includes multiple tolerance calculations² to help ensure that returns are accurate and consistent with previous returns. For example, if a new return has a beginning inventory of fuel that does not match the ending balance of the previous return, OFTS will issue an error message to the licensee that submitted the new return.

During calendar year 2016, OFTS processed approximately 14,000 fuels tax returns and collected over \$564 million in fuels tax revenue for the state and local jurisdictions.

² Tolerance calculations are system checks that determine whether submitted data is within certain parameters. Data outside allowable tolerance generate an error notification.

Auditors tested 11,530 transactions and found that 99.9% transferred successfully and appropriately to ODOT's main accounting system.

OFTS Accurately Transfers Information to ODOT's Accounting System

OFTS accurately and reliably transfers fuels tax payment and refund transaction data into ODOT's main accounting system, the Transportation Environment Accounting and Management System (TEAMS), through an electronic interface on a daily basis.

Controls surrounding interface processing should reasonably ensure that data is transferred from the source system to the target system completely, accurately, and timely. Without these controls, the department would not be able to accurately record fuels tax revenue, or issue fuels tax refunds to licensees from TEAMS.

To determine whether records transferred successfully into TEAMS with all the appropriate transaction information, we reviewed all payment and refund records in OFTS with a transfer date between January 1 and December 31, 2016. In total, we tested 11,530 transactions and found that 11,513 (or 99.9%) of these transactions transferred successfully and appropriately from OFTS to TEAMS.

The remaining 17 records successfully transferred into TEAMS but had a slightly different transfer date than what was stated in OFTS. This was primarily due to a timing difference in how certain manual payments are processed by the system.

Controls Over Refund Payments Need Improvement

Although most tax payments are accurately received and accounted for by OFTS, we found that the department does not have a sufficient review process in place to ensure that refunds are appropriate and have adequate supporting documentation to justify the amounts paid for all transactions.

During calendar year 2016, OFTS processed approximately \$5.5 million in refunds. There are four situations in which a refund payment can be issued to a fuels tax licensee:

1. The licensee files an amended return which results in a refund.
2. The licensee paid more than what was owed on a given tax return resulting in a refund.
3. The licensee used fuel for non-road use purposes, such as in farm equipment, and has requested a refund for taxes already paid.
4. Contractual agreements with local tribal entities.

Transactions that result in refunds being issued to a licensee should be subject to a variety of controls to check for accuracy and validity. These controls often consist of a combination of manual and automated processes.

However, we found the department's review process for approving refund claims is based largely on the "honor system" without requiring proper supporting documentation. Additionally, we identified several refunds with

ODOT has contracts in place with three Federally Recognized Tribes that allow for 100% of fuel taxes paid to be refunded when they are used for the purpose of providing essential governmental functions, and 80% of fuel tax paid by tribal members to be refunded. During 2016, \$2.5 million in fuels tax refunds were issued to tribes.

supporting documentation that did not match the refund amount and required significant research to determine the appropriate refund amount. While the system allows for comments and supporting documentation to be added for each refund, we found that these features were not utilized consistently to allow for a complete audit trail for all transactions.

We tested 150 refund transactions in the system, totaling approximately \$1.12 million, to ensure the refunds were appropriate. Of those, we identified 5 transactions totaling \$8,454 that were paid in error and 4 transactions totaling \$47,007 that lacked sufficient supporting documentation. However, our follow up review determined that these refunds were appropriate.

System Design Flaw Allows for Overpayments

A system design flaw concerning how amended returns are processed resulted in overpayments to licensees totaling \$3,850 during 2016.

When a licensee files an amended return after the monthly or quarterly due date that results in additional taxes owed, the system appropriately assesses a 10% penalty on the additional amount owed, as well as interest of .0329% per day late. However, when a licensee files an amended return that results in a refund, OFTS is inappropriately assessing a negative late fee of 10% and interest to the refund, resulting in an overpayment to the licensee. The late fee and interest should not be applied to the refund.

For example, if the licensee files an amended return 60 days after the original due date that results in a \$1,000 refund, OFTS issues a refund of the original payment plus a \$100 negative penalty and \$19.74 in interest. This would result in an overall refund of \$1,119.74 to the licensee.

While the total dollar amount was relatively small, we found that the system inappropriately assessed negative interest or penalties 105 times for a total of \$3,850 that was paid to the licensees in error.

System Design Flaw Results in Reporting Inaccuracies

The department uses two system-generated reports (the Revenue Journal Summary and Taxable Distribution Report) to identify funds that are owed to local jurisdictions that were collected on their behalf. Due to a design flaw involving how these reports pull information from the system based on the accounting period instead of the transaction date, we found the report may not accurately reflect what was, or should be, distributed to local jurisdictions.

While this flaw does not cause errors in these reports when licensees file timely, tax payments from late returns or amended returns may not be accurately reflected in the reports for the period in which they were actually paid. For example, the original monthly Taxable Distribution Summary for May 2016 was generated by the system on May 31, 2016. The report shows that \$41,363,586 in motor vehicle fuel taxes was distributed to state and local jurisdictions for the period. However, when we re-ran this

report for the same period it showed that \$41,412,677 was distributed during this time, a difference of \$49,091.

While the overall effect of this issue was minimal during this period reviewed, it indicates that the department may not be able to accurately reconcile and verify revenue from fuels taxes, resulting in potential over or under-payments to local jurisdictions.

OFTS Change Management and Backup Processes are Effective but Further Enhancement Warranted

Processes for implementing system code changes and backing up system files were effective. However, because system backup files have not been tested to ensure usability, the department cannot be sure that they can be restored timely when needed. Furthermore, we noted that because the system is relatively new to ODOT, it has not yet been incorporated into the department's overall Disaster Recovery Plan.

Effective Controls Established for System Changes

OFTS computer code modifications are appropriately controlled to ensure the integrity of the system data is maintained.

Changes to computer applications should be managed to ensure only tested and approved modifications are placed into production. The system vendor, Avalara, controls and maintains the OFTS source code. Avalara sends out updates in the form of patches for the system on a monthly and quarterly basis that must be installed by ODOT technical staff.

We reviewed the process for implementing OFTS updates to ensure: proper authorization exists for system patching, system updates are tested prior to implementing in production, and that appropriate change management review processes are followed. We found that changes to OFTS computer code are appropriately controlled and implemented.

Backup Files Have Not Been Tested to Ensure Usability

The department has processes in place to ensure that the system data are backed up. However, because backup files have never been tested, the department does not have assurance that the system and its data could be restored in the event of a major disruption or outage.

We evaluated the department's process for backing up OFTS including backup frequency, notifications of backup success or failure, and whether or not backups are tested on a periodic basis. We concluded that the department, in cooperation with the state data center, is backing up the system and its data using specialized backup software. However, without testing, management has no assurance that the system and its data could be timely restored in the event of a disruption.

We also noted that the department has not yet incorporated this system into their entity wide disaster recovery plans. In the event of a disaster or major disruption, the department may not be able to timely restore operations, putting fuels tax revenue at risk.

System Security Should Be Improved to Better Protect the System and its Data

Department management has implemented important protection measures for system security, such as firewalls and system activity logs, but improvements are needed to better secure the system and its data. Weaknesses relate to the department's processes for granting and reviewing system access, monitoring activities of internal and third-party users with significant system access, and protecting the confidentiality of some Personally Identifiable Information (PII). Additionally, we noted system password parameters should be more robust, and system security vulnerabilities need addressing.

User Account Management Needs Improvement

User Account Management processes governing access to OFTS are not sufficient to ensure that users only have access to system functionality needed to perform their duties.

Logical access to computer applications should be restricted according to each user's individual need to view, add, or alter information. In order to maintain this principle of "least privilege," organizations should have formal processes for timely granting, suspending, and closing user accounts. Management should also periodically review and confirm users' access rights to ensure they remain appropriate.

OFTS utilizes role-based access groups to simplify user account management. The system currently has 19 vendor-created user group profiles based on duties the Fuels Tax Group (FTG) staff perform and to enforce the separation of incompatible duties, such as entering and approving certain transactions.

We reviewed processes FTG staff use to grant and maintain users' logical access to the system and identified several procedures that need improvement. Specifically, we found that:

- procedures for requesting, documenting, and granting system user access are not clearly defined or consistently followed;
- processes are not in place to review system access on a periodic basis to ensure access remains appropriate; and
- processes are not in place to remove access when employees leave or transfer positions.

We noted one user retained system access six months after leaving the department; access was terminated as a result of our review. These

weaknesses increase the likelihood that users will have more access to the system than they need to perform their duties and increases the risk that the system or its data could be compromised.

Department Staff Do Not Routinely Monitor Privileged User Logs

The department does not regularly monitor the actions of users who have privileged access, including actions taken by the vendor, in the OFTS production environment.

Security leading practices indicate that audit logs should contain appropriate information to facilitate effective review, including sufficient information to establish what events occurred, when they transpired, and their sources and outcomes. The actions of users having privileged access, such as system administrators, should be specifically monitored to detect any unauthorized activity. Additionally, appropriate policies and procedures should exist for monitoring external third party activities within the system, such as the system vendor Avalara.

We found the department does not have a process in place to monitor the activity of internal privileged users and external third-parties with significant access. Furthermore, while the system logs all activity, security alerts have been turned off within the system settings, and system logs are not reviewed on a regular basis. This increases the risk that unauthorized actions will go undetected, and that the system and its data may be compromised.

Better Protection Needed for Personally Identifiable Information

The department does not have sufficient controls in place to safeguard PII on fuels tax returns that have been mailed to the department and scanned into the system.

In Oregon, some licensees, such as farmers, file Use Fuel reports showing how much fuel was for non-road use (tractors, generators, etc.). Instead of using Federal Employer Identification Numbers for returns, a few filers use their Social Security Number (SSN) and submit their Fuels Tax returns through the mail. The filer's name and address are also included on these returns. In reviewing 2016 fuels tax returns, we identified three returns that contained SSNs.

We determined the process of scanning these returns into the system did not include the appropriate safeguards to ensure that this PII remains under ODOT's control or is deleted appropriately.

However, we found no indication, or reason to believe, that any PII has been compromised. When we informed ODOT, staff immediately altered their procedures and now redacts any SSNs found in paper returns prior to scanning.

OFTS Password Parameters are Insufficient

OFTS password parameters are not sufficient and are not in compliance with Oregon Statewide Information Security Standards.

Oregon Statewide Information Security Standards require a system password to be at least ten characters in length with additional complexity requirements for more sensitive data. We noted that OFTS does not currently meet one or more of these requirements. This increases the risk that the system and its data may be compromised.

Follow up Needed on Application Security Scan Results

An application security scan of OFTS by the department identified numerous security vulnerabilities that require a swift response by both the system vendor and ODOT.

Using appropriate vulnerability scanning tools and techniques, management should scan for vulnerabilities in the system on a periodic basis, or when significant new vulnerabilities affecting the system are identified and reported. However, when our audit began, the department had not yet performed an application security scan to identify any potential vulnerabilities in OFTS. When we brought this to management's attention, the application was added to their schedule for application scans.

The department subsequently scanned the application for the first time in April 2017, 22 months after the application was implemented. The scan identified 240 security issues for the application, 12 of which were medium or high severity. Additionally, the scan identified 121 OFTS website URLs with vulnerabilities, 46 of which are medium or high severity.

Due to the sensitive nature of these results, we cannot publicly disclose the specifics of the vulnerabilities. However, the department has already contacted the vendor and has taken initial steps to remediate the issues identified.

Recommendations

We recommend that ODOT management:

1. Increase scrutiny and documentation of refund claims to ensure all refund payments are appropriate.
2. Work with the vendor to address system flaws regarding inappropriate penalty and interest refunds.
3. Perform manual reconciliations of key system reports to ensure that local jurisdictions receive all fuels tax revenue to which they are entitled.
4. Periodically test system and data backups to ensure usability and incorporate OFTS into its overall disaster recovery plan.
5. Establish formal procedures to authorize, document, review, and timely remove access to the system as appropriate.
6. Utilize system functionality already available to alert staff to potential security violations and to monitor third party activity.
7. Establish procedures to protect PII on fuels tax returns and reevaluate the need for using SSNs on fuels tax return forms.
8. Increase password length and complexity requirements for OFTS to comply with statewide IT standards.
9. Work with the vendor to prioritize and correct identified security vulnerabilities and schedule periodic scans of the system at regular intervals to identify any new vulnerabilities.



Oregon

Kate Brown, Governor

Department of Transportation

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August 31, 2017

Kip Memmott, Director
Secretary of State, Audits Division
255 Capitol St. NE, Suite 500
Salem, OR 97310

Dear Mr. Memmott:

This letter provides a written response to the Audits Division's final draft audit report titled "*The Oregon Fuels Tax System Accurately Assesses and Collects Fuels Taxes for State and Local Jurisdictions.*"

The Oregon Department of Transportation (ODOT) appreciates the opportunity to respond to the Secretary of State's audit of the Oregon Fuels Tax System (OFTS) and its ability to accurately assess and collect fuels tax.

The Oregon Fuels Tax System was recently modernized to improve the accuracy and efficiency of fuels tax collection. ODOT is pleased to confirm through the Secretary of State Audits Division that the system accurately assesses and collects fuels taxes for Oregon and local jurisdictions, collecting over \$564 million in 2016.

ODOT appreciates the professionalism and responsiveness of the Secretary of State's team that performed the audit of the fuels tax system. We believe independent assessments such as this provides the highest level of confidence that our systems are operating as efficiently as possible to best serve the citizens of Oregon.

ODOT agrees with the findings and recommendations outlined in the report. Below is our detailed response to each recommendation in the audit.

RECOMMENDATION 1		
Increase scrutiny and documentation of refund claims to ensure all refund payments are appropriate.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	October 1, 2017	Doug Kleeb, 503-378-5773

Narrative for Recommendation 1

ODOT agrees with this recommendation. Once the documentation and review issues were brought to the attention of management, the process was immediately changed. All supporting documents must be electronically attached to the refund claim in OFTS, another layer of review was added prior to releasing the refunds in TEAMS (ODOT's Financial System), and the Standard Operating Procedure is being updated to reflect the changes.

RECOMMENDATION 2		
Work with the vendor to address system flaws regarding inappropriate penalty and interest refunds.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	COMPLETED	Dan Paull, 503-378-6542

Narrative for Recommendation 2

ODOT had been working the identified issue with the OFTS vendor. The vendor released a correction to the system code, which was implemented on July 5, 2017.

RECOMMENDATION 3		
Perform manual reconciliations of key system reports to ensure that local jurisdictions receive all fuels tax revenue to which they are entitled.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	COMPLETED	Dan Paull, 503-378-6542

Narrative for Recommendation 3

All jurisdictional transfers are being reviewed for accuracy and any incorrect transfers are being corrected. Additionally, ODOT is actively working with the vendor to improve the system reports.

RECOMMENDATION 4		
Periodically test system and data backups to ensure usability and incorporate OFTS into its overall disaster recovery plan.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	February 1, 2018	Lea Anne Brooks, 503-986-3899

Narrative for Recommendation 4

Regular backups of OFTS data are occurring on schedule. A step to test the backup restore process will be added to the upgrade procedure for the system. The disaster recovery plan will be reviewed and updated as appropriate for OFTS.

RECOMMENDATION 5		
Establish formal procedures to authorize, document, review, and timely remove access to the system as appropriate.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	January 1, 2018	Doug Kleeb, 503-378-5773

Narrative for Recommendation 5

ODOT uses Standard Operating Procedures to establish the formal processes to authorize, document, review, and timely remove access to the OFTS. ODOT will update the Standard Operating Procedures to include a step which regularly reviews access lists and credentials.

RECOMMENDATION 6		
Utilize system functionality already available to alert staff to potential security violations and to monitor third party activity.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	November 1, 2017	Doug Kleeb, 503-378-5773

Narrative for Recommendation 6

Auditors recommended using the “Send User Security Notification” setting in OFTS to be alerted to potential security violations. That feature was installed in a recent release of the OFTS and is designed to notify users when their password is going to expire, has been changed, they reach the configured number of failed login attempts, or when there are changes made to their profile in OFTS.

Additionally, the Standard Operating Procedures will be updated to establish a regularly scheduled manual review of audit logs to ensure system activity is appropriate.

RECOMMENDATION 7

Establish procedures to protect PII on fuels tax returns and reevaluate the need for using SSNs on fuels tax return forms.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	COMPLETED	Doug Kleebe, 503-378-5773

Narrative for Recommendation 7

As noted in the audit report, ODOT has already changed our process to redact the SSN on paper reports prior to scanning into OFTS or placing the paper report into secure storage. The unit's Standard Operating Procedure has been updated to reflect this change.

In the absence of an FEIN, the SSN is a required field designed to help identify licensees when information is shared with other states that are fellow members of the Federation of Tax Administrators.

RECOMMENDATION 8

Increase password length and complexity requirements for OFTS to comply with statewide IT standards.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	January 1, 2018	Lea Anne Brooks 503-986-3899

Narrative for Recommendation 8

ODOT agrees with this recommendation and will be updating the OFTS to comply with statewide IT standards for system password length and complexity. The change will be implemented in the test environment in September 2017.

RECOMMENDATION 9

Work with the vendor to prioritize and correct identified security vulnerabilities and schedule periodic scans of the system at regular intervals to identify any new vulnerabilities.

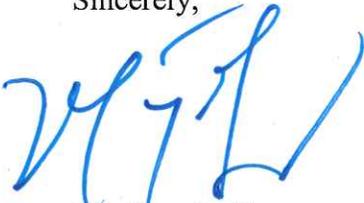
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 6 months)	Name and phone number of specific point of contact for implementation
Agree	January 1, 2018	Lea Anne Brooks 503-986-3899

Narrative for Recommendation 9

A full security scan of the Oregon Fuels Tax System was completed in June 2017. The results of this scan have been provided to the vendor and discussions are currently underway to determine and implement the specific changes needed to the software. Security scans will be an ongoing process which will continue through the life of the product.

Thank you again for the opportunity to respond to the audit. Please contact Doug Kleeb at 503-378-5773 with any questions.

Sincerely,



Matthew L. Garrett
Director

cc: Travis Brouwer, Assistant Director
Robert Gebhardt, Chief Administrative Officer
Tracy Wroblewski, Chief Financial Officer
Kurtis Danka, Chief Information Officer
Marlene Hartinger, Chief Auditor
Douglas Kleeb, Fuels Tax Group Manager