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COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

March 29, 2004

Mr. Andrew S. Eristoff  
Commissioner  
Department of Taxation and Finance  
State Campus Building 9  
Albany, NY 12227

Re: Information Technology Controls  
over the Personal Income Tax  
System  
Report 2003-S-21

Dear Mr. Eristoff:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have audited the policies and procedures used by the Department of Taxation and Finance (Department) to provide appropriate security controls over the Personal Income Tax System and its data, as well as the assurance of continuous processing of critical data after a disaster or other mishap. Our audit covered the period January 1, 2002 to August 31, 2003.

**A. Background**

In its role as State tax collector, the Department is responsible for collecting taxes, processing tax returns, and enforcing the State's tax laws. In tax processing year 2002, the Department processed about 8.4 million individual income tax returns, of which 1.8 million were filed electronically. These returns accounted for approximately \$1.65 billion in collections, and \$4.8 billion in taxpayer refunds.

The Department uses the Personal Income Tax System (PITS) to store and process tax information. The Department relies extensively upon PITS to perform various functions, such as collecting and storing sensitive taxpayer data, processing tax returns, calculating interest and penalties, and generating refunds. PITS collects and maintains a significant amount of personal and financial data for each State taxpayer. If this sensitive information is disclosed to unauthorized individuals, taxpayers could be exposed to a loss of privacy and to financial loss and damages

resulting from identity theft and financial crimes. The Department operates a network linking its employees to the various Department systems that are essential to the performance of their job responsibilities. This network allows employees to access Department systems such as PITS from their desktop computers.

The Department contracts with Fleet Services Corporation (Fleet) to perform certain “front-end” processing. Fleet receives all returns, deposits all payments, reviews tax returns for completeness, and captures and verifies certain tax return data. Fleet transmits this data over dedicated communication lines to the Department for further processing by PITS. The Department retains responsibility for all “back office” tax functions, including taxpayer audits, the collection of taxes and the enforcement of tax laws, the updating of information on PITS, and the processing and verification of tax returns.

## **B. Audit Scope, Objectives and Methodology**

Our audit examined information technology security controls over PITS for the period January 1, 2002, through August 31, 2003. The objective of our performance audit was to determine whether the Department has instituted security controls that effectively protect the integrity of the PITS and its data. Our audit did not include an initiation test to assess the vulnerability of PITS and its data.

To accomplish our objectives, we interviewed Department officials and reviewed pertinent State and Department policy and procedures relating to information security. We also reviewed relevant information and reports related to security and service continuity planning for PITS. In addition, we interviewed Department officials about their procedures for backing up critical agency data. Our review covered controls over organization and management, system software and hardware, and security related to PITS.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess the Department operations included in our audit scope. Further, these standards require that we understand the Department’s internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence that supports transactions recorded in the accounting and operating records and applying any other auditing procedures we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by agency management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis."

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under Generally Accepted Government Auditing Standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

**C. Results of Audit**

Our audit found that the Department has implemented extensive security controls over PITS. However, we did find several areas where controls could be further strengthened. These findings and recommendations were presented to the Department in detail throughout the audit. To further assure the security of PITS and its data, the findings and recommendations are not included in this report. Subsequent follow up reviews will be made on the detailed findings and recommendations. In total, we made eleven recommendations to the Department for strengthening information technology security controls for PITS. Department official's comments have been considered in preparing this final report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Taxation and Finance shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations we provided to the Department during our examination, and where recommendations were not implemented, the reasons why.

Major contributors to this report were Brian Reilly, Michael Farrar, Mark Ren, Richard Podagrosi, Alex Marshall, and Marticia Madory.

We wish to thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

Steven E. Sossei  
Audit Director

cc: Deirdre A. Taylor, DOB



ANDREW S. ERISTOFF  
COMMISSIONER

STATE OF NEW YORK  
DEPARTMENT OF TAXATION AND FINANCE  
W. A. HARRIMAN CAMPUS  
ALBANY, N.Y. 12227

January 29, 2004

Mr. Steven Sossei  
Audit Director  
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110 State Street  
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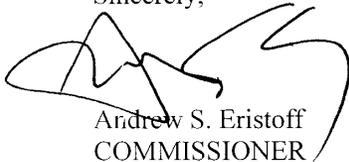
Dear Mr. Sossei:

Thank you for the opportunity to comment on the findings contained in the working draft report of the audit entitled, "Information Technology Controls over the Personal Income Tax System, (2003-S-21)."

The Department is pleased that the audit acknowledges the "...extensive security controls..." in place to assure the protection of the information contained on the Personal Income Tax System.

We will maintain our vigilance and work in the areas of the recommendations to provide a level of continued commitment to security of the information entrusted to us.

Sincerely,



Andrew S. Eristoff  
COMMISSIONER