

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 6, 2007

Ms. Martha E. Stark, Esq.
Commissioner
New York City Department of Finance
1 Centre Street (5th floor)
New York, N.Y. 10007

Re: Report 2006-N-12

Dear Ms. Stark:

Pursuant to the State Comptroller's authority under Article V, Section 1, of the State Constitution; and Article III of the General Municipal Law, we have audited whether the New York City Department of Finance (Department) has sufficient access controls in place to secure its FairTax system. Our audit covered the period January 1, 2006 to February 28, 2007.

A. Background

The Department collects taxes from more than 330,000 businesses located in New York City. It also administers and enforces the laws relating to these taxes. In 2006, the Department collected approximately \$22.5 billion in business, property and excise taxes (e.g., hotel room occupancy tax, alcohol licensing, taxi medallion transfer tax), along with parking ticket fines, penalties, judgments and other charges related to these taxes and fines. The Department does not collect personal income taxes from New York City residents as that is the responsibility of the New York State Department of Taxation and Finance. As a result of these responsibilities, the Department accumulates and maintains a large amount of taxpayer information, much of which is confidential and must be protected.

FairTax is the Department's accounting system. It processes and maintains information relating to all those who pay these taxes and fines. The Department started using FairTax in 1991. The system resides on an IBM Mainframe environment which is maintained by the New York City Department of Information Technology and Telecommunications. On January 2, 2006, the Department entered into a contract with Bank of America to input tax return and payment information into a database, which is then loaded into FairTax by the Department.

FairTax users access information for purposes such as tracking the years that taxpayers filed returns and determining the amount of taxes paid for a particular year. As of October 2006, there were 1,867 authorized FairTax users (1,742 in New York City government and 125 other limited access users, such as banks and real property title companies).

B. Audit Scope, Objective, and Methodology

Our audit, which covered the period January 1, 2006 to February 28, 2007, examined controls over the Department's FairTax system. The objective of our performance audit was to determine whether there were sufficient access controls in place to secure the FairTax system. Also included were other technology-related control issues detected during our audit.

To accomplish our objective, we reviewed policies and procedures and security reports, compared a random sample of FairTax users with payroll and tested the appropriateness of a random sample of transactions accessible by business units. To determine if controls were adequate we consulted Federal, State and city regulations and industry best practices. We also met with Department information technology employees, as well as key FairTax users. We also conducted a walkthrough of Bank of America's FairTax processing facility at its Kingston location.

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 those operations that are included in our audit scope. These standards also require that we understand the internal control structure of the Department and its compliance with those laws, rules, and regulations that are relevant to the operations included in our audit scope.

An audit also includes examining on a test basis, the evidence supporting transactions that were recorded in the accounting and operating records, and applying other auditing procedures that we consider necessary under the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for findings, conclusions, and recommendations.

As is our practice, we notified agency officials at the outset of the audit that we would request a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral presentations made to the auditors and to reduce the likelihood of misunderstandings. Agency officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They affirm either that the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result of this policy we lack assurance from agency officials that all relevant information was provided to us during the audit.

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. 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 under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

Our audit identified findings and made recommendations for corrective actions on matters pertaining to FairTax access controls and other technology-related issues. These findings and recommendations were presented in detail to Department officials throughout the audit. To further assure security of the Department's data processing operations, these findings and recommendations are not included in this report. Subsequent follow-up audits will be made on the detailed findings and recommendations. Comments of Department officials have been considered in preparing this final report. Department officials strongly agree with the importance of maintaining and improving effective access control security measures and, state that they will purposefully consider the findings and recommendations. The Department's response is included as Appendix A.

Recommendation

The Department should implement the recommendations detailed during the audit for improving access controls over its FairTax system and other technology-related issues.

Within 90 days of the final release of this report, we request that the Commissioner of the New York City Department of Finance report to the State Comptroller, advising what steps were taken to implement the recommendation contained herein, and if the recommendation was not implemented the reasons therefor.

Major contributors to this report were Abe Fish, Keith Dickter, Michael D'Amico and Sue Gold.

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

Very truly yours,

Steven E. Sossei
Audit Director

cc: Mr. George Davis, Mayor's Office of Operations



FINANCE
NEW • YORK
MARTHA E. STARK
COMMISSIONER

September 17, 2007

Mr. Brian Reilly
Audit Manager
State of New York
Office of The State Comptroller
100 State Street
Albany, New York 12236

Dear Mr. Reilly:

Thank you for the opportunity to comment on the draft audit report (2006-N-12) regarding the Department of Finance's ("Finance") access controls to secure the Fairtax system.

Finance appreciates and supports the purpose of the audit and strongly agrees with the importance of maintaining and improving effective access control security measures. To this end, Finance will continue its on-going efforts to further improve the system's access security controls and will purposefully consider the State's findings and recommendations.

If there are any questions, please contact me at (212) 669-4878.

Sincerely,

A handwritten signature in black ink that reads "Michael Koslow".

Michael Koslow
Sr. Advisor-Management Policy (and External Audits)

cc: Martha E. Stark, Commissioner of Finance
Rochelle Patricof, First Deputy Commissioner
Jane Landon, Deputy Commissioner and Chief Information Officer