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OFFICE OF THE STATE COMPTROLLER

January 4, 2008

Barbara G. Billet
Acting Commissioner
Department of Taxation and Finance
W. A. Harriman Campus, Building 9
Albany, NY 12227

Re: Report 2007-F-44

Dear Ms. Billet:

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 followed up on the actions taken by officials of the Department of Taxation and Finance (Department) to implement the recommendations contained in our audit report, Progress in the Implementation of e-MPIRE (Report 2005-S-50).

Background, Scope and Objectives

The Department administers the State's tax laws and serves as the State's general tax collection agency. For fiscal year ending March 31, 2007, the Department collected over \$56 billion in State imposed taxes and fees and more than \$36 billion in local taxes on behalf of municipalities. To accomplish its mission, the Department relies heavily on its computer systems. In 2001, the Department began to replace its existing computer systems with an integrated system that would combine the major business processes for all tax types into a single system for capturing, storing and retrieving data. This new integrated system is called the e-MPIRE system.

Our initial audit report, which was issued on December 14, 2006, examined progress in the implementation of e-MPIRE for the period April 1, 2002 through December 31, 2005. We found that the Department did not include all anticipated costs in the project's budget until late 2005. In particular, the cost of in-house staff assigned to the project was not included in the early project budgets. We also found the Department did not have a system for capturing complete, accurate and up-to-date information about actual project costs. We examined the Department's controls over the hiring and payment of consultants assigned to e-MPIRE. We found that a number of improvements were needed if the Department was to have reasonable assurance its payments are not higher than necessary and the consultants actually work all the hours paid. The objective of our follow-up,

which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of December 20, 2007 of the ten recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials made significant progress in correcting the problems we identified. Of the ten prior audit recommendations, eight recommendations have been implemented and two recommendations have been partially implemented.

Follow-up Observations

Recommendation 1

Develop a system that enables the Department to have accurate documented financial information readily available to monitor total project costs. Use this information to routinely prepare a detailed comparative analysis between total actual costs and total budgeted costs. Make adjustments to the estimated budget as appropriate.

Status - Implemented

Agency Action - According to the Department's Office of Budget and Management Analysis, although the final Release of e-MPIRE, Personal Income Tax, has been postponed until January 2009, the e-MPIRE project will formally conclude March 31, 2008. The system will be built and testing complete as of March 31, 2008, but the Department cannot begin processing personal income tax returns until next year. A copy of the project's final budget through March 31, 2008 was provided along with monthly management reports comparing actual to budgeted costs for the project.

Recommendation 2

Develop formal guidelines for determining the level of consultant required for services needed and maintain documentation supporting the decisions made during the process.

Status - Partially Implemented

Agency Action - The Department does not have formal written guidelines for determining the level of consultant required for services needed. However, evaluating and documenting the need for and level of consultant required is built into the process. A Team Leader identifies the need for a consultant, if approved by the Team Manager, discussions of the required skill sets will begin. Discussions are verbal until the Project Director approves the hiring of a consultant. At this point both the discussions of required skills sets and their decisions are formally documented on the Assignment Notification. The Assignment Notification is used to request additional resources for the project stating the mandatory experience required as well as associated skill set specifications. An Assignment Notification would not be issued without written documentation of the need for and level of consultant required.

We selected a sample of eight consultants hired for the e-MPIRE project since our audit. Assignment Notifications, including title, mandatory experience and associated skill sets, were provided for each consultant.

Recommendation 3

Obtain and review consultants' resumes prior to hiring to ensure each consultant possesses the skills and experience required for their job title.

Status - Implemented

Agency Action - A candidate's resume is reviewed by e-MPIRE administration prior to selection. As a result of our audit, the Department has implemented a second level review of each consultant's resume outside of e-MPIRE. Also the Information Technology Consulting Services contract (ITSER), established in 2006, is more specific in emphasizing that the responsibility to ensure a candidate is qualified lies with the contractor. Prior to submitting a candidate's resume for consideration, the contractor must affirm that they have completed a candidate screening process. This process must minimally include verification of the candidate's experience, skills, education and reference checks.

We selected a sample of eight consultants hired for the e-MPIRE project since our audit. Resumes for all eight consultants were on file at the Department and indicated that the consultants possessed the skills and experience required for their job title.

Recommendation 4

Take steps to improve the process for verifying contractor invoices to prevent the kinds of error that were identified by our audit.

Status - Implemented

Agency Action - To improve controls over the billing process a common electronic timesheet for consultants was created. All consultants were required to use the new timesheet as of April 1, 2007. Timesheets are now consistent from contractor to contractor. The new timesheet is also more thorough in terms of time in/time out and formulas are built in to ensure calculations are correct. A master spreadsheet is created from approved consultant timesheets by e-MPIRE administrators and forwarded to Staffing Services for verification of contractor invoices.

We requested invoices for September from Staffing Services to compare hours and rates billed by the contractors to the timesheets for each of the eight consultants in our sample. We found that both hourly rates and hours worked were correctly billed for each consultant.

Recommendation 5

Ensure that the timesheets of consultant employees are signed by the employees and approved by the appropriate individuals.

Status - Implemented

Agency Action - The common electronic timesheet for consultants has helped to ensure that all timesheets are submitted and approved by the appropriate person. Timesheets are required to be signed and dated by both the consultant and Department supervisor and submitted weekly to e-MPIRE administrators. If a timesheet is not signed by the consultant and a Department supervisor it is returned to the consultant for correction.

We reviewed a total of 47 timesheets for the eight consultants in our sample. All timesheets were signed by the consultant and approved by a Department supervisor.

Recommendation 6

Recover the overpayments identified by our audit.

Status - Implemented

Agency Action - The overpayments to contractors identified in the audit have either been recovered or documentation received from the contractor to support their billing.

Recommendation 7

Establish formal policies and procedures regarding the Department's monitoring of the extra hours worked by consultants. These policies and procedures should ensure that the hours worked are necessary, are approved, documented and agree with the number of hours billed by the contractor.

Status - Implemented

Agency Action - The Department has established overtime policies and procedures that apply to both employees and consultant staff. All overtime must be approved before it is worked. Supervisors must review all work to ensure that overtime objectives have been met. All overtime worked by Department employees must be entered into the Leave and Accrual Tracking System (LATS) and approved by a supervisor; consultant staff must report all overtime hours worked on the common timesheet. Supervisors must review all LATS entries and consultant timesheets to ensure overtime is accurately recorded. Overtime must be documented via LATS or consultant timesheets on a daily basis. Detailed overtime information is compiled into overtime expenditure reports and provided to managers for review on a regular basis.

Recommendation 8

Disseminate these formal written policies and procedures to e-MPIRE staff to ensure they are understood and adhered to.

Status - Implemented

Agency Action - The Department's overtime policy was disseminated via email to the e-MPIRE team on March 28, 2007. The email also included the responsibilities of the employee

working overtime as well as supervisor responsibilities in approving and monitoring overtime. To further tighten controls over consultant's working extra hours, policies and procedures regarding building access off hours and use of the Photo ID Card/Swipe System were also disseminated to all e-MPIRE staff.

Recommendation 9

Formally negotiate hourly rates proposed by contractors to secure the best hourly rate while retaining qualified consultants.

Status - Implemented

Agency Action - The current ITSER contract for Programming, Management Analysis and Technical Services was competitively bid based on the hourly rate range proposed by the bidders for each title and level of consultant. The hourly rate paid for each consultant must fall within the rate range established in the contract. There is some negotiation within the rate range with the contractor.

Recommendation 10

Maintain documentation of efforts to negotiate with contractors for the best hourly rate per consultant.

Status - Partially Implemented

Agency Action - Discussions with the contractor regarding a consultant's hourly rate routinely take place over the phone and therefore e-MPIRE administration would not retain documentation. However, if the discussions take place via email they will have documentation. Also if there are lengthy negotiations regarding the hourly rate they will maintain documentation.

Major contributors to this report were William Clynes, Cynthia A. Herubin, and Taryn Davila-Webster.

We thank the management and staff of the Department for the courtesies and cooperation extended to our auditor during this process.

Very truly yours,

Kenneth I. Shulman
Audit Manager

cc: Ms. Lisa Ng, Division of the Budget
Mr. James Brunt, Bureau of Internal Audit and Quality Control