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STATE COMPTROLLER



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May 1, 1998

Mr. Michael Urbach  
Commissioner  
Department of Taxation and Finance  
W.A. Harriman State Office Campus  
Albany, NY 12227

Re. Report 97-F-16

Dear Commissioner Urbach:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we have reviewed the actions taken by the Department of Taxation and Finance (Department) to implement the recommendations contained in our prior audit report 92-S-87. Our prior report, which we issued on December 2, 1992, examined the Department's controls over equipment.

**Background**

The Department administers the State's tax laws and serves as the State's general tax collection agency. The Department has a central office in Albany and 11 district offices throughout the State. The Department's equipment assets include such items as general office equipment, automobiles, personal computers, mainframe computers and network computer equipment.

**Summary Conclusion**

In our prior audit, we found that the Department's procedures and records to safeguard equipment assets were not adequate, resulting in an increased risk of equipment loss. The Department did not maintain a central inventory record of equipment. We found that the Department maintained seven different equipment inventory listings within various units. These listings were deficient because they did not include all equipment items purchased by the Department and, in some cases, the same equipment items were recorded on more than one listing. The listings lacked such information such as the purchase order and voucher numbers, cost, model, manufacturer's serial number, date the item was added to inventory and assigned location. Because of these weaknesses, the Department could not locate 54 of 279 items we chose for physical inspection.

In addition, except for fixed assets, the Department did not assign, record and tag each piece of equipment with a sequential identification number. Further, except for fixed assets, the Department did not perform an annual physical inventory of equipment. We also found that the Department needed to ensure that personal computers were used for authorized purposes only, that lost or stolen equipment was reported to the Office of State Comptroller (OSC) and that it complied with all provisions of the Internal Control Act of 1987.

In our follow-up review, we found that the Department has not established an adequate system for equipment inventory control to safeguard assets against loss or theft and has not established formal procedures to ensure that personal computers are used only for authorized purposes. The Department has taken steps to report lost or stolen equipment to OSC and has improved its compliance with provisions of the Internal Control Act of 1987.

### **Summary of Status of Prior Audit Recommendations**

The Department has fully implemented one recommendation, partially implemented one recommendation and not implemented two recommendations.

### **Follow-up Observations**

#### **Recommendation 1**

*Establish an adequate system for equipment inventory control including:*

- *maintaining a central inventory record that includes all appropriate information;*
- *performing periodic physical inventories of all equipment;*
- *recording all equipment purchases; and*
- *recording all equipment disposals.*

Status - Not Implemented

Agency Action - During our follow up review, Department officials stated that they are in the final stages of establishing a system for equipment inventory control. According to Department officials, shortages in resources had delayed implementation, but implementation of the system for non-computer assets is planned for March 1998, with a system for computer assets to follow.

Auditors' Comments - The Department needs to establish this system to safeguard all equipment assets against loss or theft. Department officials do not have adequate records to identify the

location of all of their equipment and they do not know the total value of equipment. We determined from the State's central accounting system that the Department's equipment purchases alone totaled \$40.0 million since the release of our prior audit. Since computer assets represent a significant portion of the total inventory, we are concerned that officials have not considered the importance of centralized control over all Department equipment.

### **Recommendation 2**

*Issue appropriate policies and procedures concerning the use of personal computer software.*

Status - Not Implemented

Agency Action - In response to our prior audit, the Department drafted procedures to ensure that only authorized software was used on its personal computers. In our prior audit tests, we found that 8 of 61 computers contained unauthorized software. During our follow up review, officials told us that the procedures are still not formal. In addition, the Department does not conduct physical verification tests of its personal computers to ensure that all software is authorized. Officials told us that the physical verification tests are not necessary because they know the software that is on each computer. As a result of this follow-up review, in March 1998, officials told us that the Department will assemble a representative group to convert the draft security guidelines into formal policy and procedures on personal computer use.

Auditors' Comments - We question what assurance Department officials can have that personal computers do not contain unauthorized software without conducting the verification tests. The Department has personal computers located at 11 district offices throughout the State.

### **Recommendation 3**

*Report lost or stolen equipment to OSC.*

Status - Implemented

Agency Action - In response to our prior audit, Department officials reported that they took immediate action on this recommendation by issuing new procedures to require reporting lost or stolen equipment to OSC. During our follow up review, we reviewed the new procedures in addition to the actual transmittals to the OSC.

### **Recommendation 4**

*Fully comply with all provisions of the Act.*

Status - Partially Implemented

Agency Action - In our prior audit, we found that the Department had been certifying compliance with the Internal Control Act (Act) without having conducted the required internal control

reviews. In our follow up review, we found that the Department has conducted the internal control reviews in the areas applicable to our prior audit. However, some of the reviews are not current. The Act's procedures call for conducting the reviews based upon the risk associated with each function. Higher risk functions require more frequent review. Some functions require at least an annual review. Others can be conducted bi-annually or at some other suitable interval. The reviews the Department conducted are more than two years old. Some of the reviews are for high risk functions and some are for moderate risk functions. Officials stated their belief that they have fully complied with this recommendation since in their opinion only one of the nine reviews was high risk.

Major contributors to this report were Arthur Smith, Mark Radley and Joseph Quinlan.

We would appreciate your response to this report within 30 days, indicating any action taken to address the unresolved matters discussed in this report. We thank the management and staff of the Department for the courtesies and cooperation extended to us during this review.

Very truly yours,

Kevin M. McClune  
Audit Director

cc: Robert L. King