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OFFICE OF THE STATE COMPTROLLER

March 8, 2002

Mr. Arthur Roth  
Commissioner  
New York State Department of  
Taxation and Finance  
State Campus, Building 9  
Albany, NY 12227

Re: Report 2001-F-56

Dear Mr. Roth:

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 reviewed the actions taken by officials of the New York State Department of Taxation and Finance as of January 15, 2002, to implement the recommendations contained in our audit *New York State Department of Taxation and Finance, Selected Internal Controls Over Taxpayer Estimated Tax Accounts* (Report 99-S-10). Our report, which was issued on March 14, 2000, determined whether estimated tax payments were deposited into the State Treasury and were properly credited to taxpayer accounts, whether adjustments to taxpayer accounts were appropriate, and whether penalties were properly assessed when taxpayers underpaid their estimated tax liability during the tax year.

**Background**

The Department of Taxation and Finance (Department) administers the State's tax laws and serves as its general tax collection agent. Section 685 of the Tax Law (Law) generally requires that for a given tax year, taxpayers must have paid the lesser of 90 percent of their tax liability for that year or 100 percent of their prior year tax liability. Taxpayers who do not pay withholding tax or who do not have enough tax withheld from their paychecks to meet this liability must make estimated tax payments to satisfy the provisions in the Law. The Department's Estimated Tax unit, which is within the Processing and Revenue Management Division, maintains computer files for accounts for taxpayers' personal income tax estimated payments. The Department's Audit Division is responsible for assessing penalties to those taxpayers who do not pay enough of their tax liability during the tax year. In addition to Estimated Tax unit staff, employees of other Processing and Revenue Management Division units including the Computing unit, the Previous and Prior-Year Return unit, the Amended Return unit and the Customer Service unit can approve adjustments to estimated tax accounts. Furthermore, staff from the Audit Division and the Tax Compliance Division has the ability to authorize adjustments. The Estimated Tax unit is not responsible for and

therefore does not verify the validity of adjustments made by other units in the Processing and Revenue Management Division or in other Divisions.

### **Summary Conclusions**

In our prior audit, we found that the Department accurately accounted for estimated tax revenues, and properly assessed penalties to taxpayers who underpaid estimated taxes. However, we concluded that a strengthened control environment, as well as additional risk-based control procedures, over adjustments to estimated tax accounts were needed.

In our follow-up review, we found that Department officials have made significant progress in implementing our prior audit recommendations.

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

The Department has implemented all three prior audit recommendations.

### **Follow-up Observations**

#### **Recommendation 1**

*Strengthen the control environment over estimated tax account adjustments by further developing and maintaining an operating style, attitude and philosophy that focuses on formal risk assessment and implements audit report recommendations and/or establishes other alternative control procedures to mitigate risks.*

Status - Implemented

Agency Action - In September 2000, the Department's Internal Audit unit conducted a process risk assessment of all of the units that can adjust estimated tax accounts. Most of the risks identified in the risk assessment were rated low to moderate. In the one instance where high risk was identified, the Department indicated that it took corrective actions to eliminate the risk. In addition, officials indicated that each unit will conduct its own internal control reviews at regularly scheduled intervals to ensure that future risks associated with the estimated tax adjustments process will not go undetected.

#### **Recommendation 2**

*Formally assess risks over adjustments to estimated tax accounts and establish controls that limit access to, establish review and approval levels for, and provide for supervisory oversights and routine monitoring over adjustments in a manner that appropriately mitigates risks. Consider our prior audit report recommendations in completing the risk assessment as well as the test we identify in this audit for checking on adjustments to the estimated tax accounts of Department employees.*

Status - Implemented

Agency Action - As previously mentioned, the Department completed a process risk assessment of estimated tax adjustments in September 2000. In addition, officials indicated that they have implemented a supervisory review control in all units that make adjustments to estimated tax accounts. Under this control, supervisors review adjustments made by selected employees based upon the quality of their work and/or level of experience. To provide assurance that employees are not authorizing adjustments to their own estimated tax accounts, Department officials indicated that its Inspector General's Office now conducts an annual review of all of the adjustments made to employee's estimated tax accounts. Officials explained that in this review the social security numbers of all employees are matched against the employee who authorizes the adjustment.

### **Recommendation 3**

*Before finalizing current plans to enhance Department computer systems for estimated tax processing, conduct a thorough analysis to determine what enhancements are needed to ensure the availability of an adequate audit trail for documenting estimated tax account adjustments from initial authorization through execution.*

Status - Implemented

Agency Action - Department officials indicate that they have developed a system where authorizers enter information into a database when adjusting an estimated tax account. The database will sort and transfer data to the legacy system to update the estimated tax database. At the same time, the sorting database will store the original authorization to provide an audit trail. The officials anticipate that this system will be implemented within one to one and one half years from now.

Major contributors to this report were Cynthia Herubin, Kevin Kissane and Karen Bogucki.

We thank the Department for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Jerry Barber,  
Audit Director

cc: George Konta  
Deirdre A. Taylor