

ALAN G. HEVESI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 4, 2005

Mr. Andrew S. Eristoff
Commissioner
Department of Taxation & Finance
State Campus Building 9, Room 463
Albany, NY 12227

Re: Report 2005-F-4

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 followed up on the actions taken by officials of the Department of Taxation & Finance to implement the recommendations contained in our audit report, IT Controls over the Personal Income Tax System (Report 2003-S-21).

Background, Scope and Objective

The Department of Taxation & Finance (Department) is responsible for collecting taxes, processing tax returns, and enforcing the State's tax laws. In tax processing year 2004, the Department processed 9.7 million individual taxpayer returns, of which 2.6 million were filed electronically either from home or through a tax professional. These returns accounted for approximately \$1.9 billion in collections, and \$4.7 billion in taxpayer refunds.

To fulfill its tax processing responsibilities efficiently, the Department has created the Personal Income Tax System (PITS), which utilizes two mainframe computers 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, generating refunds, and providing customer service. PITS collects and maintains a significant amount of personal and financial data for each State taxpayer. These data typically include the taxpayer's name, address, Social Security number, dependents, income, sources and types of income, and certain deductions and expenses. 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.

Our initial audit report, which was issued on March 29, 2004, examined whether the Department implemented security controls that could protect the PITS and its data adequately for the period of January 1, 2002 to August 31, 2003. 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 May 12, 2005 of the recommendations contained in our confidential report.

Summary Conclusions and Status of Audit Recommendations

We provided Department officials with the results from our follow-up work during the conduct of our review. Overall, we found that Department officials have implemented most of the recommendations contained in the confidential draft report.

Major contributors to this report were Mike Farrar, Mark Ren and Sara Peloquin.

We would appreciate your response within 30 days, indicating any actions planned to address the unresolved issues. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Robert Barnes, Division of the Budget