

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

May 13, 1999

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

Re: Report 98-F-52

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 Department of Taxation and Finance as of March 2, 1999 to implement the recommendations contained in our prior audit report, *Implementation of the Governmental Accountability, Audit and Internal Control Act of 1987* (Report 95-S-5). Our prior report was issued on May 15, 1995.

Background

The Department of Taxation and Finance (Department) administers the State's tax laws and serves as the State's general tax collection agency. The Management Services Bureau (MSB) has been delegated the responsibility of implementing and coordinating the Department's internal control program. A comprehensive system of internal controls is necessary for management to foster effective and efficient use of resources and to ensure the integrity of accounting and record keeping systems. A program for internal control review helps management to identify and to correct internal control weaknesses. In 1987, the Legislature enacted the New York State Governmental Accountability, Audit and Internal Control Act (Act), which became fully effective on April 1, 1989. The Act requires every State agency and public authority to complete the following six steps:

- Establish and maintain agency guidelines for a system of internal controls.
- Establish and maintain a system of internal controls and a program of internal

control review. The program of internal control review shall be designed to identify internal control weaknesses.

- Make available to each officer and employee of the agency a clear and concise statement of generally applicable management policies and standards with which the officer or employee will be expected to comply.
- Designate an internal control officer to implement and review the internal control responsibilities.
- Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
- Periodically evaluate the need for an internal audit function.

Summary Conclusions

Our prior audit found that the Department had developed a system of internal controls and internal control review which complied with the provisions of the Act. We commended the Department's MSB for the implementation and coordination of the internal control program. We made nine recommendations to strengthen the internal control system.

In our follow up review we found that officials developed a comprehensive internal control manual, improved security over access to the internal control files, provided a management policy statement relative to internal controls to each new employee and evaluated its internal control training program.

Summary of Status of Prior Audit Recommendations

Our prior audit contained nine recommendations. We found that Department officials had implemented four recommendations and had not implemented five recommendations.

Follow-up Observations

Recommendation 1

Develop a comprehensive Department internal controls manual to document internal control guidelines and requirements.

Status - Implemented

Agency Action - In January 1997, the Department issued its comprehensive internal control manual that documents its internal control guidelines and requirements. It enables managers and supervisors to understand what is required of them regarding installing, evaluating and maintaining a sound internal control system.

Recommendation 2

Develop a more effective mechanism to identify new assessable units to ensure they are incorporated into the internal control system.

Status - Not Implemented

Agency Action - MSB did not have a comprehensive process of evaluation to stay abreast of new or revised assessable units. MSB officials explained that they are responsible for updating the Department's organizational chart and, therefore, are aware of changes that affect internal control reporting.

Recommendation 3

Develop and document mechanisms to inform program managers of timetables when specific program requirements are due.

Status - Not Implemented

Agency Action - The Department is in the process of implementing a Lotus Notes system to allow managers to continually update the status of their internal control reviews including the level of testing and any corrective action they have taken.

Recommendation 4

Develop or obtain an internal control system database capable of tracking program requirements, monitoring due dates and corrective action plans, analyzing data, and initiating reports.

Status - Not Implemented

Agency Action - Such a database, is being developed as part of the system described in the "Agency Action" comments to recommendation number 3. The new database will be utilized to track program requirements, monitor due dates and corrective action plans, analyze data and to generate reports.

Recommendation 5

Allow only authorized MSB staff access to the internal control files.

Status - Implemented

Agency Action - Security over the internal control files has been improved since our original audit. The file is now kept locked and one individual in MSB is now responsible for maintaining the key and allowing only authorized access to the file cabinet.

Recommendation 6

Ensure that the Human Resource Unit provides a management policy statement relative to internal controls to each new employee.

Status - Implemented

Agency Action - The material given to all new employees contains the Commissioner's January 31, 1996 memorandum to all employees on internal controls. The material also contains the Commissioner's June 19, 1998 memorandum on the confidentiality of tax information, an integral part of the internal control structure of the Department.

Recommendation 7

Ensure that all employees know which official is designated as the ICO.

Status - Not Implemented

Agency Action - In January 1996, the Commissioner of Taxation and Finance issued a policy statement to all employees on internal controls. This statement included the name and title of the internal control officer. Since that time however, the internal control officer has retired. Although officials told us that the Director of the Management Services Bureau has been appointed the acting internal control officer, this appointment has not been communicated to all employees.

Recommendation 8

Provide formal internal controls training periodically so that employees transferred or promoted to supervisory duties achieve adequate awareness and understanding of the internal control standards and evaluation techniques.

Status - Not Implemented

Agency Action - Officials told us that internal control training is given to new employees when there is enough new employees to warrant giving a class on internal controls. The Department has an internal control training module for upper, middle and lower levels of management. However, some internal control training is done on an informal basis where

employees learn from the supervisor. MSB officials told us that training will also be given on the new Lotus Notes system when it is developed. However, formal internal control training is not periodically provided for transferred employees or employees promoted to supervisory duties.

Recommendation 9

Evaluate the internal control training program for new employees to determine if it provides a sufficient understanding of internal controls.

Status - Implemented

Agency Action - MSB staff evaluated the current internal control training sessions in order to determine if they understood the training. They found that the training provided an adequate understanding of internal controls for its new employees.

Major contributors to this report were William J. Nealon, Arthur F. Smith, Richard Loveless and Tom Kulzer.

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

Very truly yours,

Jerry Barber
Audit Director

cc: Charles Conaway