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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 23, 2009

Ms. Martha E. Stark, Esq.
Commissioner
New York City Department of Finance
1 Centre Street (5th floor)
New York, N.Y. 10007

Re: Report 2008-F-36

Dear Commissioner Stark:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article III, of the General Municipal Law, we followed up on the actions taken by officials of the New York City Department of Finance to implement the recommendations contained in our audit: *Controls over the FairTax Computer System (2006-N-12)*.

Background, Scope and Objectives

The New York City Department of Finance collects taxes from businesses located in New York City and administers and enforces the laws relating to these taxes. In Fiscal Year 2007, Finance collected approximately \$7.3 billion in business, property and excise taxes (e.g., hotel room occupancy tax, alcohol licensing, taxi medallion transfer tax), along with parking ticket fines, penalties, judgments and other charges related to these taxes and fines. Finance accumulates and maintains a large amount of confidential taxpayer information which must be protected.

FairTax is Finance's accounting system. It processes and maintains information relating to those who pay these taxes and fines. For example, FairTax users access information to track the years taxpayers filed returns and to determine the amount of taxes paid for a particular year.

Our initial audit report was issued November 6, 2007 and examined the physical, logical, and monitoring controls in place to ensure the confidentiality, integrity, and availability of the FairTax computer system. The objective of our follow-up was to assess as of February 24, 2009, whether our recommendations were put in place. To further ensure security of Finance's FairTax computer system, the details of the recommendations and their implementation status are not included in this report. However, we discussed the detailed results of our follow-up work with Finance officials during our fieldwork.

Summary Conclusions and Status of Audit Recommendations

We found Finance officials agreed with and implemented some of our confidential draft report recommendations. However, Finance management still disagrees with other audit recommendations and does not intend to implement them. We believe Finance should reconsider its position and take corrective action to mitigate risks to the FairTax system.

Major contributors to this report were Abe Fish, Keith Dickter and Michael D'Amico.

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

Yours truly,

Brian Reilly
Audit Manager

cc: Mr. Christopher Browne, Senior Director of Government Affairs
Mr. George Davis III, Mayor's Office of Operations