



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 30, 2020

Mr. Michael R. Schmidt  
Commissioner  
Department of Taxation and Finance  
William A. Harriman State Campus  
Building 9, Room 217  
Albany, NY 12227

Re: Report 2020-BSE08-01

Dear Commissioner Schmidt:

Our Office examined<sup>1</sup> personal income tax refunds (refunds), as well as property tax credits (i.e., School Tax Relief and Property Tax Relief, collectively referred to as credits) processed by the Department of Taxation and Finance (Department) during the period January 1, 2019 through December 31, 2019. We also examined levy year 2018 credits paid as of September 5, 2019. The objective of our examination was to determine whether refunds and credits approved by the Department were appropriate and complied with New York State Tax and other applicable Laws and regulations.

We found the refunds and credits approved by the Department were generally appropriate and complied with applicable Laws and regulations. The Department also worked collaboratively with our Office to establish a new data analytics environment and provided us with the necessary payment and adjustment data to perform our analytics. We realized immediate benefits in our ability to examine and determine if multiple property credit payments were made to the same individual on multiple properties or to multiple individuals on the same property where only one credit was due. We also used this new data analytics environment to implement additional improvements, including advancements in our selection of high-risk refunds and credits, improved payment processing turnaround, and enhanced reporting capabilities.

## Refunds

During our examination period, the Department approved and submitted to our Office nearly 7.7 million refunds for payment totaling over \$9.8 billion. We returned 19,049 questionable or inappropriate refunds to the Department for follow-up evaluation and appropriate action for one or more of the following reasons: the taxpayer claimed questionable refundable credits, losses or

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<sup>1</sup> We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8(1) and (7), and Article VII, Section 111 of the State Finance Law.

itemized deductions; the refund contained income and/or withholding allocation errors; or the refund was overstated due to filing and/or processing errors. As a result, we saved \$34.9 million. We determined this savings amount by identifying: (i) the difference between the original refund amount and the total amount paid to the taxpayer; and (ii) the total refund amount when the Department disallowed it in full. Lastly, as a result of our audit, the Department billed an additional \$1.3 million to taxpayers who were not entitled to a refund but instead owed additional taxes.

To accomplish our objective, we used data analytics to identify high-risk refunds and reviewed eligibility criteria to determine if the individual was due the refund. When our auditors determined that a portion or the entirety of the refund was questionable or inappropriate, they returned the entire refund amount to the Department for evaluation and appropriate action.

### **Credits**

The Department approved and submitted over 2.9 million credits for payment totaling over \$1.6 billion to our Office during our examination period. We returned 4,331 credits totaling over \$3 million for follow-up evaluation and appropriate action. Of these, we returned 3,369 credits totaling nearly \$2.3 million for one or both of the following reasons: the homeowner or property may not have been eligible for the credit, or the credit was incorrectly calculated. We returned the remaining 962 credits totaling \$776,993 due to an invalid or incorrect mailing address.

To date, we have confirmed savings totaling over \$1.1 million, which is based on the reduced value of credits resubmitted by the Department. In addition, working with the Department, we returned 233,988 credits totaling approximately \$127.1 million for correction and reprocessing. These credits were either to incorrect property owners, had incorrect mailing addresses, contained calculation errors, or were to ineligible individuals. The Department continues to review, reprocess and return these credits to our Office.

To accomplish our objective, we used data analytics to select high-risk credits and reviewed eligibility criteria, assessment rolls, and other sources of information to determine if the credit was appropriate for payment.

### **Multiple Credits**

The Department paid nearly 2.5 million levy year 2018 credits totaling over \$1 billion, as of September 5, 2019. We used data analytics to identify 10,142 credits totaling \$4.1 million where the Department potentially paid more than one credit to the same individual on multiple properties, or paid credits to multiple individuals on the same property where only one credit was due.

Of these, we selected a sample of 838 credits totaling \$493,517 to determine whether the Department identified the instance of a multiple credit, established a recoverable amount and recovered the money from the taxpayer. We found 544 credits totaling \$362,875 where the Department did not identify or recover the instance of a multiple credit. Due to the nature of these credits, approximately half were appropriate while the remaining credits appear to have been paid in error. The Department should review the 10,142 credits totaling \$4.1 million to determine if they are appropriate and, if not, recover funds as appropriate.

### **Recommendations**

- 1) *Continue to review the returned refunds and credits and adjust as necessary.*
- 2) *Review the 10,142 multiple credits totaling \$4.1 million, which includes our sample, to determine if they are appropriate and, if not, recover funds as appropriate.*

We shared a draft report with Department officials on October 23, 2020. In response to our draft, Department officials stated they will continue to review and adjust the refunds and credits returned by our Office, and will also continue to review and recover multiple credits where appropriate (Attachment A).

We thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors and look forward to our continued collaboration. Since your response to the draft report is in agreement with this report, there is no need for a further response unless you feel otherwise. If you choose to provide a response, we would appreciate receiving it by January 29, 2021.

Sincerely,

Bernard J. McHugh  
Director of State Expenditures

Encl: Attachment A

cc: Andrew D. Morris  
Michael Shollar  
Joseph Carzo  
Judith Farnan-Farago



**OFFICE OF PROCESSING AND  
TAXPAYER SERVICES**

**MICHAEL SHOLLAR**

Deputy Commissioner of Processing  
and Taxpayer Services

November 23, 2020

Mr. Bernard J. McHugh  
Director of State Expenditures  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

RE: Draft Report 2020-BSE08-01

Dear Mr. McHugh:

The Office of the State Comptroller (OSC) examined personal income tax refunds issued by the Department of Taxation and Finance (Department) from January 1, 2019, through December 31, 2019. OSC also examined school tax relief ("STAR"), property tax freeze, and property tax relief credits issued by the Department during the same period, as well as credits issued for levy year 2018 that were paid before September 5, 2019. This letter responds to Draft Report 2020-BSE08-01 and its recommendations.

**Recommendation 1:** Continue to review the returned refunds and credits and adjust as necessary.

We are extremely proud of the work the Department did in 2019. We issued over ten million refunds and credits that year, 99.78 percent of which your office approved without the need of further review. We will continue to review the payments OSC identified as meriting additional scrutiny. The cooperation and professionalism of your staff has been integral to this season's success. I thank you and your team for another excellent year.

**Recommendation 2:** Review the 10,142 multiple credits totaling \$4.1 million, which includes [OSC's] sample, to determine if they are appropriate and, if not, recover funds as appropriate.

The Department has begun to review the multiple credits from levy year 2018 identified by your office that were previously approved and paid. We will complete our review and, where we determine an overpayment was made, we will act to recover it.

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We have continued to work closely with OSC in 2020, and we expect you will see further improvements in the speed and accuracy of payments this year. We look forward to working together to promote and protect the integrity of New York State's refund and credit programs.

Sincerely,



Michael Shollar