



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 12, 2018

Ms. Nonie Manion
Executive Deputy Commissioner
Department of Taxation and Finance
William A. Harriman State Campus
Building 9, Room 217
Albany, NY 12227

Re: Report 2018-BSE8-01

Dear Ms. Manion:

This letter summarizes the findings and recommendations resulting from our Office's examination¹ of property tax freeze, property tax relief, and STAR credits (collectively referred to as credits) processed by the Department of Taxation and Finance (Department) during the period July 1, 2016 through June 30, 2017. Our objective was to determine whether these credits were appropriate and complied with New York State Tax Law.

A. Results of Examination

During our examination period, the Department approved and submitted to our Office 2,757,164 credits totaling over \$740 million. We selected Department-approved credits for examination using data analytics to identify high-risk transactions. Of these credits, we identified and returned 15,313 questionable or inappropriate credits totaling \$5,779,567 for one or more of the following reasons: calculation errors, deceased taxpayers, duplicate payments, or home owner or property not eligible.

In addition, we worked with the Department to return 20 payment request files prior to the completion of our examination due to the significant volume of issues identified. These payment files contained 186,747 of the 2,757,164 credits submitted by the Department, and included issues such as: (i) invalid primary residences, (ii) deceased homeowners, (iii) taxpayers with incomes exceeding limits, (iv) duplicate addresses, and/or (v) data integrity or formatting issues. We returned these payment request files to the Department for correction and reprocessing.

We recognize the Department's own efforts to identify and stop inappropriate credits, and attribute some of the inappropriate credits approved by the Department to data received in inconsistent

¹ 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.

formats from the various assessors. Additionally, assessment rolls may not be updated to reflect changes in ownership, causing the Department to process credits payable to prior owners.

According to Department Officials, they are investing in a new statewide technology platform to standardize collection of assessment data which will help to alleviate many of these issues.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. The State Comptroller's Office comments on the Department's response are included in Attachment B. Department officials generally agreed with our recommendations and stated they will continue to enhance and establish controls to ensure credits sent to OSC for approval are appropriate. The Department also stated they will work closely with municipal assessors and county property tax directors to improve administration of property tax credits on behalf of property owners statewide.

B. Background and Methodology

The Department's administration of property tax freeze, property tax relief, and STAR credits began at various times, with the oldest program (the property tax freeze program) beginning in levy year 2014. Each of these credits is intended to offset the cost of property or school taxes on a qualifying homeowner's primary residence. The qualifications for these credits vary between programs. Further, each program disqualifies a homeowner from receiving the credit when his or her income exceeds a maximum threshold amount.

We selected Department-approved credits for examination using data analytics to identify high-risk transactions. To accomplish our objective, we reviewed the eligibility criteria for each credit and used additional sources of information to confirm the recipient was eligible to receive the credit.

Recommendations

- 1) *Enhance and/or establish controls to ensure credits sent to OSC for approval are appropriate.*
- 2) *Continue to work with local taxing jurisdictions to make improvements to collect accurate and complete information.*

We thank the management and staff of the Department for the courtesies and cooperation extended to our auditors. 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 May 11, 2018.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Encl: Attachment A
Attachment B

cc: Ed Chaszczewski, Deputy Commissioner
Judith Farnan-Farago, Acting Director of Internal Audit
Tim Maher, Director of Real Property Tax Services



OFFICE OF REAL PROPERTY
TAX SERVICES

EDWARD CHASZCZEWSKI
Deputy Commissioner

March 23, 2018

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

Re: Draft Report 2018-BSE8-01

Dear Mr. McHugh:

The Office of the State Comptroller (OSC) examined the property tax freeze, property tax relief, and STAR credits processed by the Department of Taxation and Finance (Department) between July 1, 2016 and June 30, 2017. This letter responds to the draft report summarizing your office's findings and recommendations. Thank you for the opportunity to comment on the draft report.

During the audit period, the Department processed payments for the final year of the property tax freeze credit program, the first year of the property tax relief credit program, and the first year of the STAR credit program. OSC approved more than 99% of the 2.75 million property tax credits we processed, which totaled more than \$740 million. In fact, of the 15,313 credits returned to the Department, many were returned at our request to ensure their accuracy.

While the Department was issuing checks for the 2016 credit cycles, we undertook extensive enhancements to our processes to further enhance the accuracy and timeliness of the credits for 2017 and beyond. For example, in order to ensure that STAR credit checks are issued before school taxes are due, the Department overhauled its STAR processing systems and developed a new online registration application to ensure that necessary information is collected from property owners as early in the process as possible. These efforts allowed the Department to issue 98.4% of STAR checks on time while maintaining an OSC approval rate of over 99%.

With regard to the specific recommendations included in the draft report:

Recommendation 1: Enhance and/or establish controls to ensure credits sent to OSC for approval are appropriate.

In line with your recommendations, we will continue to build on this success in this and future years.

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Comment
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Recommendation 2: Continue to work with local taxing jurisdictions to make improvements to collect accurate and complete information.

As the draft report recognizes, the property tax-related credit programs administered by the Department are significantly dependent on property tax data from more than 3,775 local jurisdictions, including counties, school districts, cities, towns, villages, library districts, fire districts and other special districts. We continue to work closely with municipal assessors and county property tax directors to improve the administration of property tax credits on behalf of property owners statewide.

In closing, we thank you and the OSC staff who work with us throughout the year to ensure the accuracy of the checks we issue for a wide array of programs. Our collaborative efforts benefit property owners and New York State government, and we look forward to continuing our work together on these and other programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Chaszczewski". The signature is fluid and cursive, with a prominent flourish at the end.

Edward Chaszczewski

State Comptroller's Office Comments on Auditee Response

1. The 15,313 credits returned to the Department were a direct result of OSC's audit efforts, and does not include any credits returned at the Department's request.