



Department of Finance

Property Division
Property Valuation & Mapping Office
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Deputy Commissioner
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Carmen Maldonado
Audit Director
Office of the State Comptroller
59 Maiden Lane, 21st floor
New York, NY 10038-3804k

Re: Reporting of Billboard Income (Report 2015-F-17)

Dear Ms. Maldonado,

Introduction

The Department of Finance (DOF) appreciates the follow up on recommendations made in a prior audit, *Reporting of Billboard Income* (2011-N-2). The Department of Finance Property Division has worked diligently to implement efficiencies and ensure the inclusion of billboard and other advertising signage into valuation. While DOF only partially agreed with several of the audit recommendations from the 2013 report, enhancements have been made for each as will be illustrated below.

Recommendation 1

"Routinely obtain and examine the Buildings Department listing of properties to ensure that Finance is aware of and follows up on any properties which are not present in Finance's records."

Property agreed with this recommendation in 2013 and has fully implemented a program to capture billboard data from the Department of Buildings (DOB) and other sources. On several occasions throughout the follow up audit Property demonstrated the ongoing communication between DOF and DOB. Thorough documentation was provided to auditors since the release of the initial audit. This included original source emails, data sets as well as documented meetings with DOB officials.

Property disagrees with auditors that Recommendation 1 was only partially implemented as billboard data collection and verification is one of the Division's strongest programs. Auditors were afforded the opportunity to review not only the constant exchange between the two agencies as mentioned above but also the various independent projects and billboard surveys conducted routinely over the course of the past several years to ensure that billboards which were not present in DOF records were accounted for. DOF staff reviewed with the auditors the process that is used to compare the new billboards provided by DOB to our existing billboard lists. Some of the new billboards came from a DOB project resulting from the Federal Control Route Audit (U.S. Department of Transportation, Federal Highway

Administration) that involved inspections over several years. Any new billboards were then given to the assessors to verify and add. Separately, DOF identified additional billboard signs and added descriptive information into the CAMA system (computerized mass appraisal) through three billboard data collection projects. Since the start of the initial audit, DOF has added or updated square footage and/or other descriptive information for more than 1,000 billboards to the master inventory.

Recommendation 2

"Document the required assessor verification of the property owner is reporting billboard income on the RPIE."

Property partially agreed with this recommendation in the original audit. Since 2013 the Division has continued to adhere to DOF policies and procedures when analyzing income and expense data. As the follow up findings state, when an owner omits billboard income on the RPIE assessors will add guideline income during valuation. Billboard lists are provided to assessors and are included as part of the valuation inventory.

Recommendation 3

"Make sure that assessors verify the accuracy of billboard income reporting when income reported on RPIEs for a property vary significantly from year to year."

Property partially agreed with this recommendation in the original audit. Assessors are not required to conduct line-item audits on each reported income stream but rather reconcile the overall income and expense reported. As stated in the 2013 response billboard income can reflect arrangements between property owners and several other parties. DOF does not have access to these leases and/or agreements. Year-to-year volatility can be valid because of specific leases/agreements, especially at the point of renewal. There are other reasons we have seen in specific cases, such as regulatory restrictions which limits what the billboard can be used for. In addition, property owners sometimes file billboard income in the wrong place on the RPIE one year (especially with a new owner). When the assessor values the parcel they discover that billboard income is reported on another line on the RPIE. As mentioned in our response to the 2013 audit, DOF continues to work with the Tax Commission on specific cases where billboard income may be underreported. As previously stated, DOF will continue to establish billboard guidelines, as this is consistent with established Property policies and procedures. We believe our current procedures are effective, but in the interest of thoroughness, the Property Quality Assurance Unit will conduct a review of high-value billboards with extreme volatility in their RPIE filings.

Recommendation 4

"Ensure that assessors follow the requirements of the City Administrative Code and examine all taxable properties at least once every three years."

Property agreed with this recommendation in the original audit. As stated in the follow up report, Property has recently concluded the second of a three-year Administrative Inspection Project (AIP). While all parcels had been seen in the past by assessors, the AIP provides better documentation in the Division's mass appraisal application Vision. At the conclusion of the third year of this multi-year inspection effort all parcels will have been inspected as per the City Administrative Code.

Recommendation 5

"Impose penalties authorized by the Administrative Code for the late or inaccurate filing of RPIEs. Document the basis for any decisions not to impose the required penalty or to subsequently credit a tax bill for the amount of an unpaid penalty."

(a) Inaccurate filing of RPIEs

DOF recognizes that penalties are currently only assessed on those who do not file by the cure period deadline and not for those who file inaccurate statements. As noted in DOF's response to the original audit (2011-N-002), the Administrative Code specifies penalties only for non-filers. DOF's rules provide that failure to file a substantially complete and accurate RPIE may be penalized but only when the inaccurate or incomplete filing amounts to a non-filing.

As part of the normal valuation process assessors identify many RPIEs that are inaccurate and make adjustments or use alternative income valuation methods to arrive at an accurate value. Considering the significant volume of filings and the restrictive statutory language, DOF believes this is the most effective approach to recapture any potential loss in revenue.

In the past, DOF conducted a pilot program to look at a randomly selected sample of RPIE filings. DOF performed audits for the 2009 RPIE filing period, but no penalties were asserted because the adjustments were not determined to be substantial enough to deem the RPIE findings invalid. DOF plans to initiate another audit pilot in 2017. We have initiated analysis to look at data over several years that will be used to identify parcels more likely to have significant inaccuracies in their filings.

(b) Documentation of basis for no penalty imposition or credit to tax bill

DOF acknowledges that there was some misunderstanding about what the auditors had requested and what DOF provided during the review, regarding the required filers list. The auditors requested the required filers list as an additional item to a previous request list on 3/22/16, but did not inquire about it again until the closing conference on 8/24/16. Once DOF realized the required filer list had not been sent, it was provided that same day.

Sincerely,

Timothy Sheares, Deputy Commissioner

cc: Michael Hyman, First Deputy Commissioner, DOF
Carmela Quintos, Assistant Commissioner, DOF
Sam Mayer, Senior Director, Internal Audit, DOF
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