



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 6, 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 report summarizes the findings and recommendation resulting from our Office's examination<sup>1</sup> of Department of Taxation and Finance (Department) personal income tax refunds processed during calendar year January 1, 2017 through December 31, 2017. The objective of our examination was to determine whether refunds approved by the Department for payment were appropriate and processed in accordance with applicable New York State tax laws and regulations.

During our examination period, the Department submitted 7.7 million refunds totaling \$9.5 billion. Using data analytics to identify high-risk transactions, we selected 24,879 refunds totaling \$433.9 million for examination. We returned 10,414 questionable refunds totaling about \$36.7 million to the Department for follow up evaluation and appropriate action, as follows:

Reason for Stopping Refunds	Number	
Taxpayer claimed refundable credits based on incorrect information, such as inaccurate number of dependents or understated income	7,992	\$25,039,648
Tax preparer submitted returns with refundable credits based on incorrect and/or false information	928	2,796,792
Taxpayer failed to report correct income	722	4,018,168
Taxpayer used a questionable social security number	424	1,059,098
Taxpayer had questionable itemized deductions	117	328,619
Taxpayer reported incorrect wages and withholding	99	238,128
Other	132	3,250,777
<b>Total Refunds Stopped</b>	<b>10,414</b>	<b>\$36,731,230</b>

<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.

We estimate that our efforts resulted in a savings of approximately \$20.2 million. We based this estimate on a separate analysis of prior year results that prevented refund overpayments averaging 55 percent of the refund amount returned by our Office.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. Department officials generally agreed with our recommendation and stated they will continue to use data analytics and technology to evaluate personal income tax returns to detect and prevent erroneous refunds.

### **Recommendation**

*Continue working with our Office to identify and implement opportunities to help detect and prevent erroneous refunds.*

We recognize the Department has also taken independent steps to identify and prevent inappropriate refunds, and we look forward to our continued collaborative relationship. 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 August 6, 2018.

Sincerely,

Bernard J. McHugh  
Director of State Expenditures

Encl: Attachment A

cc: Edward Chaszczewski, Deputy Commissioner  
Judith Farnan-Farago, Acting Director of Internal Audit  
Joseph Carzo, Audit Division Director  
Diane Rynski, Director of Personal Income Tax



JOSEPH A. CARZO  
Director of Tax Audits  
Audit Division

June 1, 2018

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

Re: Draft Report 2018-BSE8-01

Dear Mr. McHugh:

This letter is in response to the draft report summarizing the Office of the State Comptroller (OSC) findings and recommendations for the calendar year January 1, 2017 through December 31, 2017. The draft report is the result of the annual examination of the personal income tax refunds processed by the Department of Taxation and Finance (Department). Thank you for the opportunity to comment on the draft.

The draft report summarizes the results of the questionable refunds returned to the Department by OSC during the 2017 calendar year. It also includes a recommendation to the Department that we continue to work with your Office to identify and implement opportunities to help detect and prevent erroneous refunds. The Department and your staff have an excellent working relationship and continue to share findings to improve our efforts in detecting erroneous refunds. The Department continues to use data analytics and technology to evaluate every personal income tax return filed to identify the best returns to review utilizing the existing staff and resources available with the expected response rates based on the prior year results. Each year as the processing season winds down, we analyze all edits and results for possible improvements in our efforts. Our efforts to prevent erroneous refunds of highly suspect and/or fraudulent refund claims have yielded a savings of \$560 million during the 2017 calendar year.

The Department would like to thank you and the OSC staff that assist us throughout the year in ensuring the integrity of refund processing. Our continued partnership lends to our successes in this most important mission.

Sincerely,

A handwritten signature in blue ink that reads "Joseph A. Carzo". The signature is written in a cursive style.

Joseph A. Carzo  
Director of Tax Audits