

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 22, 2015

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

Re: 2014 Property Tax Freeze Credit Audit  
Report

Dear Commissioner Boone:

This letter summarizes the findings and recommendations resulting from our Office's examination<sup>1</sup> of Department of Taxation and Finance (Department) payments to taxpayers for the Tax Year 2014 Property Tax Freeze Credit (PTF Credit). The PTF Credit is intended to reimburse qualified New York State homeowners for increases in local property taxes on their primary residences. The Office of the State Comptroller (OSC) approved more than 2.3 million PTF Credit payments totaling \$222 million through May 15, 2015. The objective of our examination was to determine whether the PTF Credit payments approved by the Department were appropriate and processed in accordance with New York State Tax Law.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. The comments of the State Comptroller on the Department's response is included as Attachment B. In their response, Department officials stated that they are committed to helping local officials establish a standardized file structure. The officials anticipate this up-front collaboration will allow the Department to focus less on data repair and restructuring and more on timely and accurate calculations in the processing of 2015 PTF Credit payments.

To receive the PTF Credit in 2014, homeowners must receive the STAR property tax exemption (i.e., the property must be the homeowner's primary residence and the total household income must be \$500,000 or less) and the school district where the homeowner's property is located must comply with the New York State Property Tax Cap.

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

For tax year 2014, the Department provided us with 102 files containing over 3.1 million PTF Credit payments totaling \$375 million. Of these, we returned 25 files containing over 881,000 payments to the Department for correction and reprocessing because the data was incomplete or inaccurate or the calculations were incorrect. While not all of the payments in these files were incorrect, due to the volume of payments needing correction, it was more efficient to return the entire files instead of identifying and returning individual payments for reprocessing. This sometimes resulted in individual payments being submitted and returned more than once.

Using a risk-based approach, we examined 216,164 individual PTF Credit payments totaling \$33,175,360. This includes payments selected from both the initial files and the corrected files. We identified and returned to the Department 5,661 questionable payments totaling \$591,902 for follow-up evaluation and appropriate action. Specifically, we returned:

- 2,159 payments totaling \$239,848 with incorrect or questionable data and incorrect calculation amounts. This includes incorrect payee and/or address information and PTF Credits calculated incorrectly.
- 1,841 payments totaling \$188,523 where either the homeowner or property was not eligible for the STAR property tax exemption. This includes out-of-state residents, household incomes that exceeded the eligibility limit, secondary residences or business properties.
- 909 duplicate payments totaling \$62,651.
- 752 payments totaling \$100,880 to deceased homeowners.

Although the Department maintains the necessary data to identify incorrect payee and/or address information, out-of-state residents, household incomes that exceed eligibility limits, secondary residences, business properties and deceased homeowners, it did not always review that data prior to submitting payments to our Office for approval. Department officials indicated that collecting and processing non-standardized PTF Credit data from multiple assessor offices to make timely payments was challenging. The Department states they plan to incorporate the review of this data into their process for the 2015 Tax Year.

The Department estimates there are about 7,500 Tax Year 2014 PTF Credit payments remaining. We will continue working with the Department to audit these payments and to resolve any returned

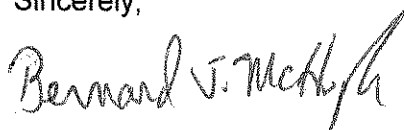
payments. We appreciate the Department's prompt review of questionable payments identified by our Office.

**Recommendations**

- 1) *Ensure PTF Credit payment data is complete and correct prior to submitting those payments for approval.*
- 2) *For the 2015 Tax Year, work with the local assessor offices to ensure data provided is standardized, complete, and accurate.*

We thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors. Since your response to our report is in agreement with these recommendations, there is no need for further response unless you feel otherwise. If you choose to provide a response, we would appreciate receiving it by August 21, 2015 indicating any actions planned to address the recommendations in this report.

Sincerely,



Bernard J. McHugh  
Director of State Expenditures

Enc: Attachment A  
Attachment B

cc: James Brunt, Director of Internal Audit  
Tim Maher, Director of Real Property Tax Services



Department of  
Taxation and Finance

OFFICE OF REAL PROPERTY TAX SERVICES  
SUSAN SAVAGE  
Assistant Deputy Commissioner

June 26, 2015

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

Re: 2014 Property Tax Freeze Credit Draft Audit Report

Dear Mr. McHugh:

The Office of the State Comptroller (OSC) examined the 2014 Property Tax Freeze Credit checks (Freeze Checks) processed by the Department of Taxation and Finance (Department). This letter responds to the draft report summarizing the OSC findings for the 2014 Freeze Check cycle and recommendations for the upcoming 2015 cycle. Thank you for the opportunity to comment on the draft report.

For 2014, the Property Tax Freeze program provided an advanced personal income tax credit to every STAR-eligible property owner residing in a school district that complied with the property tax cap. The value of the credit was equal to the greater of the actual increase in the homeowner's school tax bill or the previous year's tax bill multiplied by the applicable 1.46% inflation factor, but excluded tax increases due to property improvements, exemption changes, and certain impacts of jurisdiction-wide reassessments. In order to calculate the amount of each credit, the Department had to match and perform calculations based upon local assessment rolls, local tax bill files and Department records. There are no mandatory State standards for local tax data and little uniformity exists across taxing jurisdictions, particularly regarding local tax bill data. The Department devoted significant resources to convert local data into a standardized format and correct local data errors so the credits could be calculated correctly.

The Department issued over 2.35 million 2014 Freeze Checks with a total value of over \$222 million. In reporting that OSC returned more than 881,000 payments to the Department, the draft report implies that 28% of the records submitted for payment were incorrect. In fact, OSC returned batches of 10,000 records to the Department multiple times due to questions about specific payments within the batch.

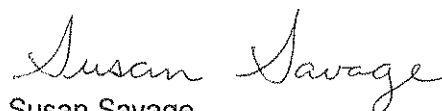
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Comment  
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The Department believes the better quality indicator is the rate of approval by OSC. Of the 2.37million individual payments transmitted by the Department to date, over 95% were ultimately approved by OSC without changes. With OSC's assistance, the Department was able to correct over 96,000 additional payments. The Department ultimately withdrew only 11,470 payments, or less than 0.5% of the Freeze Check payments it handed for 2014. OSC's audit sampling confirms this record: OSC audited approximately 9% of the individual payments – those it deemed most at risk – and questioned fewer than 3% of those audited records.

The Department is well along in its preparations for the 2015 Freeze Check cycle, which will cover not only eligible school districts, but also eligible tax increases for more than 4,000 other local government taxing jurisdictions. We recognize that the completeness and accuracy of the Freeze Checks turns on complete and accurate local data inputs, and we are committed to helping local officials provide standardized data files. Staff from the Office of Real Property Tax Services and several other Department business units is actively engaged with local officials to establish a standardized file structure and to provide direct assistance as they convert local data into a standard format. This up-front collaboration with local officials will allow the Department to focus less on data repair and restructuring and more on timely and accurate calculations as the 2015 Freeze Check processing proceeds next fall.

The Department would like to thank you and the OSC staff that assist us throughout the year in ensuring the integrity of the Freeze Check program and our other various payment processing programs. The professional relationship between our two agencies continues to be highly productive as we work collaboratively to ensure the accuracy of the Freeze Checks and other payments processed by the Department.

Sincerely,



Susan Savage  
Assistant Deputy Commissioner

**State Comptroller Comment on Auditee Response**

1. We acknowledge that not all of the payments in the files returned to the Department for correction and reprocessing were incorrect. However, it was more efficient to return the entire files than to identify and return individual payments for correction and reprocessing. This sometimes resulted in individual payments being submitted and returned more than once.