



City of New York

OFFICE OF THE COMPTROLLER

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FINANCIAL AUDIT

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Deputy Comptroller for Audit

Audit Report on the New York City
Department of Finance's Administration
of the School Tax Relief Program

FM15-070A

June 17, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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NEW YORK, NY 10007

SCOTT M. STRINGER
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June 17, 2015

To the Residents of the City of New York:

My office has audited the New York City Department of Finance (DOF) to determine whether DOF ensured that recipients of the Basic School Tax Relief exemption (STAR) or the Enhanced School Tax Relief exemption (ESTAR) meet the eligibility requirements of the program. We audit City agencies such as DOF as a means of increasing accountability and ensuring that City resources are used effectively, efficiently and in the best interest of the public.

This audit found that 1,509 property owners may have received tax reductions they were not entitled to and, as a result, the government may have been deprived of \$422,520 in property tax revenue during Fiscal Year 2015 to which it was entitled. Specifically, DOF did not remove exemptions from at least 1,355 properties following the transfer of ownership from individuals to a corporation or LLC. In addition, 154 properties that are not classified by DOF for residential use received exemptions. Moreover, these property owners could have received additional tax reductions from the STAR exemptions for years prior to Fiscal Year 2015.

Further, DOF failed to properly maintain the STAR exemption application and supporting documentation for 26 (52%) of the 50 sampled cases. DOF's failure to enforce the eligibility requirements and to maintain the initial application and supporting documentation may have resulted in improper exemptions being applied.

The audit made six recommendations including that DOF should verify the ownership of the 1,355 properties cited in our report and remove the STAR or ESTAR exemptions from those properties that are determined to be owned by a corporation or an LLC; review all properties with a non-residential building class that are currently receiving STAR or ESTAR exemptions to ensure those properties are qualified for the exemption; request updated information from the owners of the properties identified in this report as missing documentation and review their eligibility for the STAR and ESTAR exemptions they have been receiving; and ensure that all future applications are properly stored in DOF's data management system.

The results of the audit have been discussed with DOF officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
Audit Findings and Conclusion	1
Audit Recommendations.....	2
Agency Response.....	2
AUDIT REPORT	3
Background	3
Objective.....	4
Scope and Methodology Statement.....	4
Discussion of Audit Results	4
FINDINGS AND RECOMMENDATIONS.....	5
Properties Owned by a Corporation or a Limited Liability Company Improperly Received STAR/ESTAR Exemptions from DOF	5
DOF Incorrectly Applied the STAR and ESTAR Exemptions to Non-Residential Properties	6
DOF Does Not Properly Maintain Case Files	8
Recommendations.....	9
DETAILED SCOPE AND METHODOLOGY.....	11
ADDENDUM.....	13

THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the New York City Department of Finance's Administration of the School Tax Relief Program

FM15-070A

EXECUTIVE SUMMARY

This audit of the New York City Department of Finance (DOF) focuses on its administration of tax benefits to qualified property owners under the New York State School Tax Relief Program. The program provides a partial exemption from school taxes for owner-occupied primary residences. There are two types of School Tax Relief exemptions: a homeowner may obtain either a Basic School Tax Relief exemption (STAR), or an Enhanced School Tax Relief exemption (ESTAR) available to homeowners who are 65 or older by the end of the calendar year in which the exemption begins. However, homeowners cannot receive both. There is no age restriction for the STAR exemption, but the combined income of resident owners and their spouses cannot be more than \$500,000. Only individuals, not corporate entities can claim STAR and ESTAR exemptions.¹ For the ESTAR exemption the combined income of resident owners cannot be more than \$81,900 for Fiscal Year 2015 (July 1, 2014 to June 30, 2015). STAR and ESTAR are governed by Section 425 of the New York State Real Property Tax Law (RPTL).

According to *DOF's Standard Operating Procedures Personal Exemptions Processing an Application*, applications and supporting documentation must be reviewed to determine whether the homeowners meet the STAR and ESTAR exemptions' eligibility requirements. The exemptions are then entered into DOF's mainframe system called Real Property Assessment Data (RPAD). As of July 1, 2014, there were 491,149 homeowners who received either the STAR or ESTAR exemption.

Audit Findings and Conclusion

DOF allowed owners of at least 1,500 properties to receive STAR or ESTAR exemptions for which they were not eligible. Specifically, DOF failed to remove exemptions for at least 1,355 properties when ownerships were transferred to a corporation or a limited liability company (LLC). We also found another 154 properties that are not classified by DOF for residential use that received STAR

¹ Properties that are owned by limited partnerships that do not engage in any commercial activity and where at least one of the partners use it as a primary residence can claim a STAR exemption.

or ESTAR exemptions. Consequently, these 1,509 property owners may have received tax reductions to which they were not entitled and as a result, the government might have failed to receive \$422,520 in property tax revenue during Fiscal Year 2015 to which it was entitled. Moreover, these property owners could have received additional tax reductions from the STAR exemption for years prior to Fiscal Year 2015. Further, DOF failed to properly maintain the STAR exemption application and supporting documentation for 26 of the 50 sampled cases.

Audit Recommendations

DOF should:

1. Verify the ownership of the 1,355 properties that, according to the DOF 2015 Final Assessment Roll, are owned by either a corporation or an LLC, and remove the STAR or ESTAR exemptions from those properties that are determined to be owned by a corporation or an LLC.
2. Review all properties with a non-residential building class that are currently receiving STAR or ESTAR exemptions to ensure those properties are qualified for the exemption.
3. Request updated information from the owners of the properties identified in this report as missing documentation and review their eligibility for the STAR and ESTAR exemptions they have been receiving.
4. Ensure all future applications are properly stored in DOF's data management system.
5. Implement tighter controls to ensure that the homeowner information listed in RPAD is accurate and up to date to prevent a homeowner from receiving STAR or ESTAR exemptions on multiple properties.
6. Modify RPAD to contain computer edit checks that will automatically:
 - a. Reject STAR and ESTAR exemptions for properties that are owned by corporations and LLCs;
 - b. Ensure that STAR and ESTAR exemptions are removed from a property when the title to a property is transferred to a new owner; and
 - c. Reject applicants for a second STAR exemption who already have one.

Agency Response

DOF officials agreed with the audit's recommendations and stated that "DOF is already in the process of undertaking the steps recommended to ensure renewals are being completed and case files are being maintained. We will continue to diligently review applications and supporting documents to ensure applicant eligibility."

AUDIT REPORT

Background

DOF is responsible for implementing and monitoring tax benefits granted under the New York State School Tax Relief Program, which provides a partial exemption from school taxes for owner-occupied primary residences. The exemption appears as a reduction on the property's assessed value, which is used to determine the property tax. There are two types of School Tax Relief exemptions. Pursuant to Section 425 of the RPTL, a homeowner may obtain either a STAR or an ESTAR exemption, but not both at the same time. The ESTAR exemption is only available to homeowners who are 65 or older by the end of the calendar year in which the exemption begins. These are the only property tax exemptions fully reimbursed by New York State.

To be eligible for the exemption, homeowners must satisfy several criteria, including that the property must be a one-to-three family home, condominium or cooperative apartment and that it must be used as the claiming owner's primary residence.² Also, the combined income of resident owners of a property cannot exceed the maximum income limit. For Fiscal Year 2015 (July 1, 2014, to June 30, 2015) the combined income of resident owners and their spouses cannot be more than \$500,000 for an applicant to be eligible for a STAR exemption and cannot be more than \$81,900 for an applicant to be eligible for an ESTAR exemption. All applications must be submitted by March 15th in order for the exemption to begin on July 1st of the same year.

The RPTL requires that DOF discontinue a STAR or ESTAR exemption if the property is no longer the primary residence of the owner or the title to the property has been transferred to a new owner. The RPTL further states that the exemption shall be discontinued on the next tentative assessment roll, although homeowners receiving a STAR exemption are not required to renew annually. However, homeowners receiving ESTAR exemptions are required to renew annually, unless the homeowners participate in the STAR Exemption Optional Income Verification Program or are receiving the Senior Citizen Homeowner's exemption, which requires its own renewal.³

Prior to 2005, DOF retained paper copies of the homeowners' applications. In 2005, DOF established a protocol whereby applications and supporting documentation were supposed to be scanned into FileNet, an electronic data management system. In 2012, FileNet was replaced with the Personal Exemptions Online Processing System (PEOPS).⁴

DOF's Standard Operating Procedures require that applications and supporting documentation be reviewed to determine whether the homeowners meet the STAR and ESTAR exemptions' eligibility requirements. The exemptions are then entered into DOF's mainframe system called RPAD. As of July 1, 2014, there were 491,149 homeowners who received either the STAR or ESTAR exemption.

² If the property is a type that is not eligible, the portion that is used as a primary residence may nonetheless be entitled to either a STAR or ESTAR exemption.

³ Through the STAR Exemption Optional Income Verification Program, homeowners can opt to have their income eligibility verified annually by New York State through their tax filing. Alternatively, if a senior citizen submits an application for a Senior Citizen Homeowner's Exemption, verification of income eligibility under that program will suffice for the ESTAR exemption.

⁴ A system called D2 is now used to store the information previously stored in FileNet.

Objective

The objective of this audit was to determine whether DOF ensures that recipients of the STAR and ESTAR exemptions meet the eligibility requirements of the program.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit included homeowners who were receiving either a STAR or ESTAR exemption during Fiscal Year 2015 (July 1, 2014 to June 30, 2015).⁵ Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DOF officials during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and discussed at an exit conference held on May 18, 2015. At the exit conference, DOF officials provided additional information and have stated that they have taken action to address the issues cited in the report. On May 29, 2015, we submitted a draft report to DOF with a request for comments. We received a written response from DOF on June 12, 2015.

In their response, DOF officials agreed with the report's findings and recommendations. DOF described corrective actions it has taken and stated "DOF is committed to having cost-effective controls and procedures in place to ensure that recipients meet the eligibility requirements of the benefit programs. DOF is already in the process of undertaking the steps recommended to ensure renewals are being completed and case files are being maintained. We will continue to diligently review applications and supporting documents to ensure applicant eligibility."

The full text of DOF's response is included as an addendum to this report.

⁵ The STAR exemption was recorded on the Fiscal Year 2015 Final Assessment Roll that was issued by July 1, 2014.

FINDINGS AND RECOMMENDATIONS

DOF allowed owners of at least 1,500 properties to receive the STAR or ESTAR exemptions to which they were not eligible. Specifically, DOF did not remove exemptions from at least 1,355 properties following the transfer of ownership from individuals to a corporation or LLC. In addition, 154 properties that are not classified by DOF for residential use received exemptions. Consequently, these 1,509 property owners may have received tax reductions to which they were not entitled and as a result, the government may have been deprived of \$422,520 in property tax revenue during Fiscal Year 2015 to which it was entitled.⁶ Moreover, these property owners could have received additional tax reductions from the STAR exemptions for years prior to Fiscal Year 2015.

Further, we sampled 50 case files out of the 491,149 homeowners receiving exemptions as of July 1, 2014, and found that in 26 (52%) of the case files, DOF did not maintain the application and supporting documentation that would indicate that the homeowner was ever eligible for the STAR or ESTAR exemption. DOF's failure to enforce the eligibility requirements and to maintain the initial application and supporting documentation may have resulted in improper exemptions being applied.

Properties Owned by a Corporation or a Limited Liability Company Improperly Received STAR/ESTAR Exemptions from DOF

Our review of DOF's Fiscal Year 2015 Final Assessment Roll reports identified at least 1,355 properties owned by either a corporation or LLC with either a STAR or an ESTAR exemption during Fiscal Year 2015.⁷ The New York State STAR Assessor's Guide states that "The central requirement for the STAR exemption is that the property is 'one, two, or three family residence' or certain other property, and that it is the 'primary residence of the owner.' The term 'residence' in this context contemplates that the owner is an individual. *Where title to property is in the name of a corporation, the exemption may not be granted.*" (Emphasis added.) We estimated that during Fiscal Year 2015, DOF's application of either a STAR or an ESTAR exemption to 1,355 properties owned by corporations or LLCs has resulted in an estimated property tax loss of at least \$379,400.

We also randomly selected 50 properties from the 1,355 properties and attempted to review the associated STAR and ESTAR applications and supporting documentation on file with DOF. However, we were not able to locate any information for the current property owners in DOF's electronic data management systems. We did, however, determine by reviewing the properties' deeds that 46 of the properties are currently owned by either a corporation or LLC. We could not locate the deeds for two properties and the remaining two properties were sold to individual homeowners in 2003 and 2011, respectively. (DOF's Final Assessment Roll did not correctly record the owners' names for these two properties after they were sold, and in addition we found no initial exemption application on file for either property.) Subsequent to the May 18, 2015, exit

⁶ We base our estimate on DOF's estimate that each individual STAR-eligible homeowner will receive approximately \$280 in tax reductions in Fiscal Year 2015. Since this tax is fully reimbursed by New York State, the loss of tax revenue inures to the State and not the City.

⁷ Residents who own shares of stock of a cooperative apartment which is owned by a corporation can still be eligible for the exemption. Therefore, properties with building classification codes that indicated the properties were cooperative apartments were not included in the 1,355 properties.

conference, DOF provided documents to establish the ownership of the two properties to which we could not locate the deeds. After reviewing the documentation provided, we found that the Final Assessment Roll incorrectly recorded the owner's name. Those two properties were owned by individuals and therefore are eligible for the STAR exemption.

Our review further found that 41 of the 46 properties began to receive either a STAR or an ESTAR exemption prior to the property being owned by a corporation or LLC. Further, none of the 41 properties had applications on file, which led us to conclude that the exemption was carried over from a prior owner. According to the RPTL, "The assessor shall discontinue any exemption granted pursuant to this section if it appears that . . . title to the property has been transferred to a new owner or owners." The remaining five properties first received the exemption in Fiscal Year 2015 even though they were owned by corporations or LLCs prior to 2014. Again there are no applications on file that might provide an explanation for why DOF granted any of these five exemptions.

After the exit conference, DOF conducted a review of these five properties and officials informed us that it had removed the STAR exemption from those properties because they found that the owners were not eligible. DOF officials explained at the exit conference that the reason that DOF did not have applications for these five properties on file was because New York State had requested that exemptions be granted to homeowners who registered with New York State.⁸

In addition, DOF informed us that it reviewed its own sample of 55 of the 1,355 properties we identified as appearing to have been owned by either a corporation or an LLC and found that 42 were not eligible for the STAR exemption. As to the remaining 13, DOF provided sufficient documentation that they were eligible to receive a STAR exemption; 8 were co-ops and 5 were actually owned by individuals.⁹ As discussed earlier in this report, our findings are based on information recorded in DOF's Final Assessment Roll for Fiscal Year 2015, which indicated that the properties were owned by either an LLC or a corporation and none had building classification codes indicating that the properties were co-ops. Combining the results of the two samples it appears that 87 of the 103 sampled properties (84 percent) were not eligible for STAR benefits. The remaining 16 had the owners' name or building classification incorrectly listed on DOF's Final Assessment Roll and may be eligible.

DOF Incorrectly Applied the STAR and ESTAR Exemptions to Non-Residential Properties

DOF incorrectly applied the STAR and ESTAR exemptions to non-residential properties such as parking spaces, parking facilities and other commercial facilities. Our review of the Fiscal Year

⁸ New York State modified its finance laws as follows: "If the commissioner of taxation and finance is informed on or before October 1, 2015, that an owner of property is an unenrolled registrant [a person who registered with New York State but failed to file an application for the STAR exemption], and if such commissioner finds that the unenrolled registrant's property would have qualified for the STAR exemption authorized by section 425 of the real property tax law on the 2014 assessment roll if a completed application had been filed with the appropriate assessor in a timely manner, then the commissioner of taxation and finance is authorized to remit directly to the property owner or owners the tax savings that the STAR exemption would have yielded if the STAR exemption had been granted on the 2014 assessment roll. When remitting such amount, the commissioner of taxation and finance shall advise the property owner or owners that such payment is subject to recovery by such commissioner if the property owner or owners do not apply for and qualify for the STAR exemption on the 2015 assessment roll, or if it should otherwise be found to have been erroneously remitted to such property owner or owners."

⁹ The auditors sampled 50 and DOF sampled 55 properties. Two of the 55 properties DOF sampled were included in our sample. (One was found eligible and the other was ineligible.) The two populations have a total of 103 distinct properties. The combined results of the samples found 87 ineligible (46 from the auditor's sample population and an additional 41 from DOF's sample population).

2015 Final Assessment Role identified 154 properties with non-residential building class codes that received either STAR or ESTAR exemptions.¹⁰ Table I lists the non-residential building class codes we found, along with the description of the building class code and the number of properties that received either the STAR or ESTAR exemption.¹¹

Table I

Non-Residential Building Class Codes

Building Class Code	Description	Count
G9	Miscellaneous Garage or Gas Station	5
H4	Motel	1
H9	Miscellaneous Hotel	1
K1	One Story Retail Building	3
K7	Banking Facilities with or without parking	3
K9	Miscellaneous Store Building	11
O2	Office building; 10+ stories - side street type	1
O5	Office building; semi-fireproof	1
O7	Professional building/stand-alone funeral homes	2
O9	Miscellaneous office building	9
RB	Office space	24
RG	Indoor Parking	55
RK	Retail space	16
RP	Outdoor parking	21
RW	Warehouse/factory/industrial	1
Total		154

According to Section 425 of the RPTL, to receive a STAR or ESTAR exemption “the property must be a one, two or three family residence, a farm dwelling or residential property held in condominium or cooperative form of ownership. If the property is not an eligible type of property, but a portion of the property is partially used by the owner as a primary residence, that portion which is so used shall be entitled to the exemption provided by this section.” Based on the property types that DOF has recorded on the Final Assessment Roll, none of these 154 non-residential properties have a portion of the property being used as a residence and, therefore, none should receive the STAR or ESTAR exemption. We estimated that applying either STAR or ESTAR exemptions to these 154 properties resulted in an estimated property tax revenue loss of at least \$43,120.¹² At the exit conference, DOF indicated that the 154 properties were part of DOF’s own internal audit and the STAR benefit will be removed from 141 of the 154 properties. DOF determined that the remaining 13 properties were eligible for the STAR exemption.

¹⁰ DOF assigns each property a building class code that describes the building type.

¹¹ We included only the properties assigned a non-residential building class code, which indicates that there is no residential use associated with the property. DOF has building class codes that indicate mixed used (for example K4 – Predominant Retail With Other Uses) that could have a residential portion; therefore, those were not included in our analysis.

¹² An approximate STAR benefit is a \$280 tax reduction in Fiscal Year 2015.

In addition, we randomly selected 30 properties from the properties that DOF classified as non-residential properties and attempted to review the applications and supporting documentation on file with DOF. However, we were unable to locate 20 applications in DOF's electronic data management systems. Based on our review of the ten cases we found, DOF incorrectly granted STAR or ESTAR exemptions to nine of the ten properties, based on DOF's classification of them as non-residential properties with no residential use. The remaining non-residential property has a residential portion and so appears to have been correctly granted the STAR exemption. As previously noted, non-residential properties with building classifications that indicate that a portion can be used as a residence were excluded in this finding.

In one of the nine cases we found where a STAR or ESTAR exemption was improperly granted, a homeowner submitted a STAR exemption application for the block and lot number associated with her private parking space. The condominium where this homeowner resides had already received a STAR exemption. DOF granted a second STAR exemption for the private parking space beginning in Fiscal Year 2015. In another example, a homeowner, who has been receiving a STAR exemption on her condominium since 2005, submitted an application for an ESTAR exemption in 2012. She used her private parking space's block and lot number on her ESTAR exemption application and as a result, DOF improperly applied an ESTAR exemption to her private parking space instead of her condominium. However, the homeowner already receives a STAR exemption on her condominium. Not only did DOF incorrectly apply the ESTAR exemption to a non-residential property, DOF also has allowed both of these homeowners to receive the exemption on two separate properties, which under the RPTL, violates the exemption's primary residence requirement.

At the exit conference, DOF explained that the exemption was granted because RPAD showed different owners for the residential units than it did for the parking units when the exemption was first applied. DOF also indicated that RPAD will not allow DOF to grant STAR to a single owner more than once. RPAD currently shows that the parking space is ineligible for STAR exemption and thus, the parking space should never have received an ESTAR exemption.

DOF Does Not Properly Maintain Case Files

Our review of 50 sampled case files out of the 491,149 homeowners who were receiving exemptions as of July 1, 2014, found that 26 case files did not include an application and supporting documentation to establish that the applicant was ever eligible for a STAR or ESTAR exemption. For these 26 properties, seven applied for exemptions after 2005, so their applications and supporting documentation should have been scanned and available in DOF's electronic data management systems. According to DOF's Records Retention Schedule, DOF is required to maintain the original or a copy of the application, along with the required supporting documentation, for six years after termination of the exemption. Since the homeowners are still receiving STAR or ESTAR exemptions, DOF should have retained the documentation. Without maintaining the documentation to support the original STAR or ESTAR exemption grant to these 26 homeowners, there is no assurance that the homeowners were ever eligible for either of these exemptions.

Recommendations

DOF should:

1. Verify the ownership of the 1,355 properties that, according to the DOF 2015 Final Assessment Roll, are owned by either a corporation or LLC, and remove the STAR or ESTAR exemptions from those properties that are determined to be owned by a corporation or LLC.

DOF Response: “We agree and completed research for the 1,355 properties. We found that 15% of these properties were eligible for STAR. . . . The remaining 85% (1,152) of these properties were ineligible. The exemption was removed for these properties for FY 16”

2. Review all properties with a non-residential building class that are currently receiving STAR or ESTAR exemptions to ensure those properties are qualified for the exemption.

DOF Response: “We agree and already have a process in place for identifying these properties and removing the exemptions.”

3. Request updated information from the owners of the properties identified in this report as missing documentation and review their eligibility for the STAR and ESTAR exemptions they have been receiving.

4. Ensure all future applications are properly stored in DOF’s data management system.

DOF Response to Recommendations 3 and 4: “We agree that we should maintain complete case files by scanning and retaining new and renewal applications and all required documentation. . . . The online processing system was put into production in 2012 and scans all applications and supporting documents immediately upon receipt. . . . As a result, new applications with supporting documentation from 2012-onward are subject to this system.

We agree that all applications should be properly stored. . . . Of the 26 case files that the audit found were missing an application and supporting documentation, none had benefits that started in 2012 or more recently.”

5. Implement tighter controls to ensure that the homeowner information listed in RPAD is accurate and up to date to prevent a homeowner from receiving STAR or ESTAR exemptions on multiple properties.

DOF Response: “We agree that we need to prevent homeowners from receiving STAR or ESTAR on multiple properties. RPAD has a business rule that automatically removes the STAR exemption from a property when the applicant’s Social Security Number is associated with another property that already has STAR. This business rule has been in effect for many years.”

6. Modify RPAD to contain computer edit checks that will automatically:
 - a. Reject STAR and ESTAR exemptions for properties that are owned by corporations and LLCs;

DOF Response: “We agree that we should monitor properties owned by corporations or LLCs to ensure their eligibility for STAR. We will conduct an audit of these properties annually. Currently, RPAD will reject new STAR and ESTAR exemptions requests for properties owned by Corporations and LLCs. We will consider implementing a business rule in the new Property Tax System that prevents approval of STAR for a property owned by a business entity. We will prevent properties owned by a business entity from filing electronically for STAR.”

- b. Ensure that STAR and ESTAR exemptions are removed from a property when the title to a property is transferred to a new owner;

DOF Response: “We agree that STAR exemptions should be removed when the title is transferred. Currently, RPAD has the functionality to remove STAR and ESTAR exemptions when a property is transferred to a new owner or converted to a Corporation or LLC. This job is run by FIT at the end of a fiscal year. We are reviewing our business rules to ensure these benefits are removed automatically in our current system. The business requirements for the new Property Tax System include this requirement.”

- c. Reject applicants for a second STAR exemption who already have one.

DOF Response: “We agree that STAR cannot be granted to an applicant that already receives STAR. Currently, RPAD will reject applications for a second STAR exemption for those BBLs who already have one....”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope period of this audit included homeowners receiving either a STAR or an ESTAR exemption during Fiscal Year 2015 (July 1, 2014, to June 30, 2015).

To achieve our audit objective, we reviewed DOF's Standard Operating Procedures for Personal Exemptions — Processing an Application to establish the approval process for Fiscal Year 2014. To gain an understanding of the exemption approval process, we interviewed DOF's Director of Homeowner Tax Benefits Unit, Deputy Director of Operations, and Deputy Director of Compliance.

We also conducted walk-through meetings with DOF officials regarding the exemption approval process. The results were documented in memoranda and flowcharts. We used the New York State *Real Property Tax Law § 425 School Tax Relief (STAR) exemption*, and the New York State Department of Taxation and Finance's *Assessor's Manual, Volume 4, Exemption Administration § 4.01* as audit criteria for eligibility.

We requested a list of all residential properties (Resident List) receiving property tax exemptions from DOF. To determine the completeness of the Resident List, we reconciled the Borough, Block and Lot (BBL) numbers to the New York City Department of Finance's Fiscal Year 2015 Final Assessment Roll (FY15 AvRoll) published on May 25, 2014 that we obtained from DOF's website. The accuracy of the Resident List was tested directly through our audit testing as noted in the next paragraph.

We extracted all residential properties that received a STAR or ESTAR exemption from the Resident List. As of May 2014, 491,149 STAR or ESTAR exemptions were distributed to 485,029 properties,¹³ which were identified by BBL numbers. We randomly selected 50 properties from the Resident List for review. To determine if a STAR or ESTAR exemption was properly approved and supported by the appropriate documents, we reviewed the applications and supporting documents stored in DOF's two document management systems, D2 and PEOPS, from 2012 to present, and requested hardcopy documentation for those applications that were initiated prior to 2005 (applications were maintained in hardcopy prior to 2005). To determine which supporting documents were appropriate, we used DOF's *Required Documents Checklist for the Personal Exemption Initial Application for Tax Years 2012/2013, 2013/2014, and 2014/2015*.

To determine whether DOF may have improperly granted a STAR or an ESTAR exemption to properties owned by a corporation, or by a non-person entity, we used data analytics to identify and extract 1,355 properties with a corporate or LLC name from DOF's Fiscal Year 2015 Final Assessment Roll. We then randomly selected 50 of the 1,355 properties with Corporate or LLC ownership according to DOF's FY15 AvRoll. We examined ownership records in the New York

¹³ There is only one BBL for a cooperative apartment building and a cooperative building can have multiple units receiving a STAR or ESTAR exemption.

City Automated City Register Information System (ACRIS). We attempted to review the applications and supporting documents stored in D2 and PEOPS.

To determine whether DOF may have improperly granted STAR or ESTAR exemptions to non-residential properties, we used data analytics to identify and extract 154 properties with a non-residential building class code from DOF's Fiscal Year 2015 Final Assessment Roll. We then randomly selected 30 properties. We attempted to review the applications and supporting documents stored in D2 and PEOPS.



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June 12, 2015

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Re: Audit Report on the New York City Department of Finance's Administration of the School Tax Relief Program (FM15-070A)

Dear Deputy Comptroller Landa,

The Department of Finance (DOF) appreciates the Comptroller's audit findings regarding the administration of the New York State School Tax Relief Program (STAR) and the opportunity to respond to the Draft Report.

Background

New York City is responsible for the administration of the STAR Program which is fully funded by New York State; the State reimburses the City for 100% of the STAR benefits.

The DOF unit that administers the School Tax Relief Program is the Homeowner Tax Benefits unit. In addition to STAR, the unit also administers the following exemptions and abatement:

- Senior Citizen Homeowner Exemption
- Disabled Homeowner Exemption
- Veteran Exemptions (Basic, Combat and Disabled)
- Coop/Condo Abatement
- Clergy
- Disabled Crime Victim

The benefit with the most recipients is STAR. There are 562,474 households that received STAR in Fiscal Year 2014.

DOF is committed to having cost-effective controls and procedures in place to ensure that recipients meet the eligibility requirements of the benefit programs. To highlight the steps we've taken to improve our unit's operations, we present the following information:

Prior to 2012, the STAR application process did not require supporting documentation from applicants; information was largely self-certified. Since 2012, the Homeowners Tax Benefits unit has increased to a 35-person unit with a robust application process. DOF instituted a more vigorous application process for initial applications. We began requiring supporting

documentation for all initial applications. Applicants who fail to provide proper supporting documentation are now denied benefits. DOF also engaged a third-party vendor to build a customized, online processing system. The current system has business rules built into its programming that prevent approvals for certain ineligibility triggers, captures processing data that allows us to track inventory, productivity, trends and accuracy, and incorporates a worksheet that helps processors calculate income for DHE applicants.

In 2013, we created a Compliance Unit to, among other things, conduct audits, remove benefits when transfers occur, identify homeowners with benefits in other jurisdictions (“double dipping”) and support the Tax Commission in their appeals processes.

DOF also merged the group that administered STAR and other benefits with the group that administered the Co-op/Condo Abatement to facilitate consistency in benefit policies and processes. Our first task was to determine which of the 365,000 abatement recipients were primary residents and remove benefits from those that were not. Approximately 80,000 units lost their abatement as a result.

In 2014, the volume of initial applications more than doubled as a result of the New York State STAR Registration process which subsequently required us to primarily focus on initial applications. However, we were still able to launch a pilot renewal application process, complete several audits and conduct a renewal process for select condo abatement recipients.

In 2015, with the initial application process well-established and the backlog of applications processed, we are also reinstating the requirement to renew benefits. We have built, and are now testing, a customized, online application to facilitate the volume of renewals we intend to administer. As an agency, we are also replacing our legacy property tax systems. The efficiencies gained from the new system will allow us to devote additional resources to renewal applications.

Responses to Recommendations

- 1. Verify the ownership of the 1,355 properties that, according to the DOF 2015 Final Assessment Roll, are owned by either a corporation or LLC, and remove the STAR or ESTAR exemptions from those properties that are determined to be owned by a corporation or LLC.**

We agree and completed research for the 1,355 properties. We found that 15% of these properties were eligible for STAR. In some cases, the owner of the property was an LLC, but the owner of the coop unit that receives the STAR exemption was an individual. In other cases, the deed indicated that the owner was an individual.

The remaining 85% (1,152) of these properties were ineligible. The exemption was removed for these properties for FY16. The ineligible properties represent less than one percent 0.21% (1152/562,764) of the entire population of STAR recipients totaling 562,474.

2. Review all properties with a non-residential building class that are currently receiving STAR or ESTAR exemptions to ensure those properties are qualified for the exemption.

We agree and already have a process in place for identifying these properties and removing the exemptions. In 2014, we conducted an audit of the 562,474 properties with a STAR exemption and seemingly ineligible building class. As a result, we removed benefits from 263 properties (0.05%) for FY15.

In 2015, we conducted a similar audit and found 411 properties (0.07%) with a STAR exemption and seemingly ineligible building class. We removed benefits from all of these properties for FY16. The remaining 99.93% of properties with STAR have an eligible building class.

Out of 562,474 properties with a STAR exemption, the audit identified 154 properties (0.03%) where the building class appeared inconsistent with eligibility for the STAR exemption. Based on the full STAR population of 562,474, we researched each property and found the following:

- 29 (19%) properties no longer have STAR as a result of our FY15 audit
- 13 (8%) properties were part of our FY15 audit and research found that the properties were eligible for STAR
- 112 (73%) properties were included in our FY16 audit and benefits were removed for FY16

We will continue to conduct this audit annually and remove STAR and other benefits from ineligible properties.

3/4. Request updated information from the owners of the properties identified in this report as missing documentation and review their eligibility for the STAR and ESTAR exemptions they have been receiving. Ensure all future applications are properly stored in DOF's data management system.

We agree that we should maintain complete case files by scanning and retaining new and renewal applications and all required documentation. In 2011, DOF engaged a third-party vendor to build a customized, online processing system, which creates electronic copies of all STAR applications and supporting documents. The online processing system was put into production in 2012 and scans all applications and supporting documents immediately upon receipt. These electronic copies are maintained indefinitely, in accordance with the City Department of Records' document retention policy. As a result, new applications with supporting documentation from 2012-onward are subject to this system.

We agree that all applications should be properly stored. As described above, we have a robust scanning operation and indexing system that was custom built to support our operation in 2012. Of the 26 case files that the audit found were missing an application and supporting documentation, none had benefits that started in 2012 or more recently.

5. Implement tighter controls to ensure that the homeowner information listed in RPAD is accurate and up to date to prevent a homeowner from receiving STAR or ESTAR exemptions on multiple properties.

We agree that we need to prevent homeowners from receiving STAR or ESTAR on multiple properties. RPAD has a business rule that automatically removes the STAR exemption from a property when the applicant's Social Security Number is associated with another property that already has STAR. This business rule has been in effect for many years.

6. Modify RPAD to contain computer edit checks that will automatically:
a. Reject STAR and ESTAR exemptions for properties that are owned by corporations and LLCs

We agree that we should monitor properties owned by corporations or LLCs to ensure their eligibility for STAR. We will conduct an audit of these properties annually. Currently, RPAD will reject new STAR and ESTAR exemptions requests for properties owned by Corporations and LLCs. We will consider implementing a business rule in the new Property Tax System that prevents approval of STAR for a property owned by a business entity. We will prevent properties owned by a business entity from filing electronically for STAR.

b. Ensure that STAR and ESTAR exemptions are removed from a property when the title to a property is transferred to a new owner; and

We agree that STAR exemptions should be removed when the title is transferred. Currently, RPAD has the functionality to remove STAR and ESTAR exemptions when a property is transferred to a new owner or converted to a Corporation or LLC. This job is run by FIT at the end of a fiscal year. We are reviewing our business rules to ensure these benefits are removed automatically in our current system. The business requirements for the new Property Tax System include this requirement.

Since 2013, we have instituted a robust process for manually reviewing property transfers that have exemptions at the time of sale. This process helps us to determine either the proper date for benefit removal or if benefits should remain on the property (such as when a property is transferred to an eligible trust).

c. Reject applicants for a second STAR exemption who already have one.

We agree that STAR cannot be granted to an applicant that already receives STAR. Currently, RPAD will reject applications for a second STAR exemption for those BBLs who already have one. As described above, it has a business rule that automatically removes STAR exemptions if the Social Security Number of an applicant is associated with a property that already receives STAR.

Additionally, if an applicant owns property in other jurisdictions within or outside of New York State, our Compliance unit researches these properties to determine which property is the primary residence of the applicant. This process began with the 2014/15 tax year.

Additional Comments

We would also like to highlight the following:

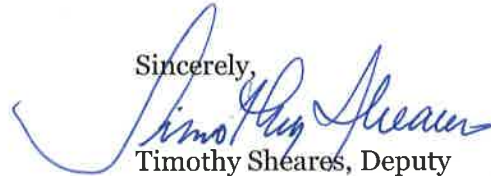
- The methodology indicates that the audit “randomly selected 50 properties” from the Resident List for review. This is 0.01% of the total STAR population or one ten-thousandth of the population of the total population of 562,474.
- The report explains that Enhanced STAR is “available to homeowners who are 65 or older.” In accordance with Section 425 of the New York State Real Property Tax Law (RPTL), where the owners are spouses or siblings, only one owner needs to be 65 or older.
- The report explains that the “total combined income of all owners and their spouses cannot be more than \$500,000” to be eligible for Basic STAR. In accordance with the RPTL, the total combined income of resident owners and spouses cannot exceed \$500,000. Income for non-resident owners is not considered.

- The report indicates that there were 491,149 homeowners who received either the STAR or ESTAR exemption as of July 1, 2014. Our records indicate that 562,474 homeowners received STAR or ESTAR in Fiscal Year 15.
- The report claims that we may have failed to receive “property tax revenue.” The State of New York reimburses the City of New York for 100% of the cost of the STAR exemptions; no property tax revenue was lost.
- The report claims that we applied “STAR or ESTAR to 1,355 properties owned by corporations or LLCs” and that these properties were not eligible for the exemption. Our research of this population found that 15% of these properties were eligible for STAR or ESTAR. Therefore 1,152 properties were ineligible, which represents 0.2% of the total STAR population totaling 562,474.
- Please note the last recommendation reads, “Reject applicants for a second STAR exception...” We believe it should read “exemption.”

Conclusion

As illustrated in our responses, DOF is committed to having cost-effective controls and procedures in place to ensure that recipients meet the eligibility requirements of the benefit programs. DOF is already in the process of undertaking the steps recommended to ensure renewals are being completed and case files are being maintained. We will continue to diligently review applications and supporting documents to ensure applicant eligibility. Finally, we thank your staff and appreciate their efforts in conducting this audit.

Sincerely,



Timothy Sheares, Deputy
Commissioner

C: Michael Hyman, First Deputy Commissioner
Pierre DeJean, Assistant Commissioner
Sam Mayer, Senior Director, Internal Audit
Shelby Kohn, Director