



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

MARJORIE LANDA
DEPUTY COMPTROLLER FOR
AUDIT

BUREAU OF AUDIT

May 7, 2019

By Electronic Mail

Commissioner Jacques Jiha, Ph.D.
New York City Department of Finance
1 Centre Street, Room 500
New York, NY 10007

**Re: Letter Report on the Department of Finance's Administration of the
Senior Citizen Rent Increase Exemption Program
(Audit Number MG18-097AL)**

Dear Commissioner Jiha:

This Letter Report concerns the New York City Comptroller's audit of the Department of Finance (DOF) and its administration of the Senior Citizen Rent Increase Exemption (SCRIE) program. The objective of this audit was to determine whether DOF has adequate controls in place to ensure that property tax abatement credits (TACs) are issued to only those landlords whose tenants meet SCRIE eligibility requirements. Our audit found that DOF has adequate controls in place to ensure that TACs are appropriately issued. Additionally, our review of TAC expenditures posted from July 1, 2016 through February 28, 2018 found that DOF: correctly determined eligibility of tenants to participate in the SCRIE program (with a few exceptions); revoked ineligible tenants' benefits or retrieved TACs from landlords when tenants passed away or moved subsequent to the issuance of TACs; and correctly processed benefit takeovers by eligible household members in such cases.

Background

DOF administers a broad range of programs that offer tax credits, one of which is the SCRIE program. This program provides an exemption to eligible tenants from future rent increases by keeping the rent at either the applicants' prior rent amount, or one-third of their monthly income, whichever is greater. At the same time, the program offers landlords an equivalent credit on their property taxes. This amount, issued on behalf of eligible tenants, is applied quarterly to the landlord's property tax bill in the form of a TAC, to offset any taxes due in the next tax period.¹ Tenants who apply and are determined to be eligible are legally entitled to SCRIE benefits. Landlords do not have the authority to refuse participation or to prevent a tenant

¹ The building owner or landlord receives a quarterly Statement of Account reflecting credit or debit activities.

from participating in the SCRIE program. To become eligible for the SCRIE program, one must meet the following eligibility criteria:²

- Be at least 62 years of age;
- Have no more than \$50,000 per year in household income;³
- Be listed as the Head of Household or the primary tenant on the lease/rent order or have been granted succession rights to the apartment;
- Spend more than one-third of the monthly household income on rent; and
- Reside in a rent-controlled, rent-stabilized, or hotel-stabilized apartment in New York City (City).

Landlords, tenants, and family of tenants are required to notify DOF within 30 days when there is a change in the tenant's circumstances, such as a death or a permanent move from the apartment. In such instances, DOF is to determine whether another household member is eligible for the exemption and, if so, approve a benefit transfer. If there is no other eligible household member, DOF is required to revoke the benefits and retrieve previously issued TACs—in the form of a debit adjustment—going back to the first day of the month following the change in circumstances.

A prior audit conducted by our office found that DOF had inadequate controls in place to ensure that all TACs issued to landlords were appropriate.⁴ As a result, the audit found that during the period of review (July 1, 2009 through November 30, 2010), DOF issued more than \$11.8 million in TACs on behalf of 3,801 deceased tenants. A follow-up audit found that DOF had improved its administration of the SCRIE program—that audit found that as of May 31, 2012, DOF had retrieved a total of \$9.8 million in inappropriately issued TACs.⁵

For our scope period of July 1, 2016 through February 28, 2018, DOF issued \$239,749,768.67 in new TACs on behalf of 58,279 tenants.

Audit Findings

We found that DOF has adequate controls in place to ensure that TACs issued to landlords are appropriate. Specifically, the controls established by DOF include the following:

- Development of clearly defined policies and procedures for its staff, including those pertaining to the roles, functions, and responsibilities of personnel who administer the SCRIE program to help ensure that staff are aware of their responsibilities.

² To remain eligible for the SCRIE program, all tenants must complete and submit a signed renewal application to DOF for the new lease period, along with the required supporting documents.

³ After the deduction of social security and federal, state, and local taxes.

⁴ *Audit Report on the Department of Finance's Administration of the Senior Citizen Rent Increase Exemption Program* (Audit # MG11-053A), issued September 23, 2011.

⁵ *Follow-up Audit Report on the Department of Finance's Administration of the Senior Citizen Rent Increase Exemption Program* (Audit # MG12-118F), issued on December 3, 2012.

- Segregation of responsibilities for various stages of the program—including the receipt and processing of applications, the issuance of TACs, and the review of appeals—among different units and individuals to ensure that overlapping responsibilities are not under the control of any one unit or individuals in a unit.
- Matching the names of recipients listed in its SCRIE databases with the names of individuals listed as deceased in the Social Security Administration Death Master File (SSADMF) index on a monthly basis to ascertain whether any TACs were issued on behalf of deceased tenants and need to be recovered. As of February 2018, DOF retained the services of the National Association of Public Health Statistics (NAPHSIS) to perform a similar match on a quarterly basis.⁶

Based on our review of DOF's electronic database of TAC expenditures posted from July 1, 2016 through February 28, 2018, we found that DOF: correctly determined the eligibility of tenants to participate in the SCRIE program, with a few exceptions (discussed below); appropriately issued TACs to landlords on behalf of those tenants; did not issue TACs for tenants whose applications were still in pending status; and appropriately revoked the benefits of ineligible tenants. DOF also correctly issued prior period TACs to landlords within the current audit scope period.⁷ Additionally, we found that DOF revoked tenants' benefits or retrieved TACs from landlords when tenants passed away or moved subsequent to the issuance of TACs to landlords.⁸ Finally, we found that for those tenants in our sample where DOF transferred SCRIE benefits from the primary tenants to other household members, such transfers occurred as a result of the death of the primary tenants.

However, when we examined the entire population of SCRIE tenants—58,279 at the time of our review—for the purpose of determining whether any of the tenants' annual household incomes exceeded the maximum allowed income of \$50,000, we found that DOF erroneously paid \$13,944 in TAC benefits on behalf of six tenants whose incomes exceeded the required \$50,000 threshold. After we notified DOF of the errors, DOF retrieved \$5,267 and was unable to retrieve the remaining \$8,677 in TAC payments that had resulted from DOF's error in approving the applications.⁹ DOF has since added an edit check to its integrated electronic Rent Increase Exemption (RIE) processing system intended to identify when an applicant's income exceeds the allowed threshold and prevent the approval of ineligible applications.¹⁰

⁶ NAPHSIS matches the social security numbers of the SCRIE population to its database to identify any current recipients who are deceased. NAPHSIS returns any matches to DOF for removal from SCRIE benefits and for the recoupment of TACs, if applicable.

⁷ DOF issues prior period benefits along with current benefits under the following circumstances: a) lease period change or extension; b) Major Capital Improvement (MCI) increases – current as well as retroactive increases.

⁸ In instances where there is an eligible household member, DOF correctly processed the benefit takeover, which is the transfer of SCRIE benefit from the primary tenant to an eligible household member, upon the death or permanent move of the primary tenant.

⁹ In instances of DOF's error, TACs can only be retrieved prospectively – from the time that DOF discovered the error it can retrieve payments that were made in advance, but cannot retrieve payments made prior to the discovery of their error.

¹⁰ It should be noted that when we reviewed a sample of 100 SCRIE applicants to assess their eligibility, we found no instances where DOF incorrectly assessed the eligibility of tenants to receive SCRIE benefits or where the agency issued TAC payments to landlords for ineligible tenants.

Recommendation

DOF should continue to monitor the controls put in place to ensure that TACs are appropriately issued to landlords.

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 objective. 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 audit scope was July 1, 2016 through February 28, 2018. To gain an understanding of how DOF manages the SCRIE program and to assess the adequacy of the agency's internal controls as they relate to our objective, we conducted walkthroughs and interviews with DOF management and staff, including the Director and Deputy Director of Operations, the Deputy Director of Applications, and the Director and Manager of Compliance, as well as with SCRIE Intake staff and application processing staff. We also evaluated information obtained from the agency's website.

In addition, we reviewed various laws, procedures, and policies, including the following: (1) Provisions of NYS Statutes and the NYC Administrative Code concerning the SCRIE and DRIE programs; (2) SCRIE Initial Application Processing Standard Operating Procedures (SOP); (3) SCRIE Renewal Application Processing SOP; (4) SCRIE/DRIE Qualifications and Eligibility (requirements); (5) the NYC Rent Freeze Program-Freeze Your Rent; (6) How to process a Benefit Takeover; (7) Owner, SCRIE Program (requirements); (8) SSADMF Monthly Match Process; and (9) Information from the National Association for Public Health Statistics (NAPHSIS).

To determine the dollar amount of TACs issued to landlords during our 20-month scope period (July 1, 2016, through February 28, 2018), we reviewed an electronic database of all TAC expenditures posted through February 28, 2018, and found that DOF issued to landlords \$239.7 million in TACs (expenditures), on behalf of 58,279 tenants. To determine whether DOF issued TACs appropriately to landlords on behalf of eligible SCRIE tenants we sorted the approved tax expenditure population of 58,279 tenants, and randomly selected 100 tenants and determined whether they met SCRIE eligibility requirements (e.g., submitted completed SCRIE applications, proof of age, and income documents; met the SCRIE household and one third income requirements). We also determined whether benefit transfers were processed for tenants identified as deceased in DOF's records or, where applicable, whether the benefits were revoked and TACs

were retrieved. Further, we reviewed the entire population of 58,279 SCRIE tenants to determine whether any of the tenants' annual household income exceeded the maximum allowed income of \$50,000.

From the sorted population of 58,279 approved TAC expenditures, we randomly selected 40 out of 222 prior period benefit payments to test the accuracy of DOF's assessment of prior period TACs that were issued with the current period TACs. For primary tenants identified as deceased, we determined whether benefit transfers were processed for eligible household members or where applicable, whether TACs were retrieved.

We further reviewed the population of 58,279 approved TAC expenditures to ascertain whether DOF accurately assessed applications that were listed in a status other than approved. Of the 64 tenants whose status was previously listed as pending, we randomly selected 5 tenants and examined supporting evidence to determine whether the reported status was accurate. We also randomly selected 10 tenants out of 662 tenants whose status was listed as revoked to determine whether the revocations were appropriate. Finally, of the 55 tenants whose status was listed as denied, we randomly selected 5 tenants to determine whether the denial was appropriate and properly documented.

We randomly selected 25 out of 3,810 tenants who were listed as having not renewed their applications to determine whether any had submitted renewal documentation that indicated that they met SCRIE eligibility guidelines. For those who did not renew their applications because their SCRIE benefits were revoked, we determined whether the benefits were revoked in accordance with SCRIE policy and the TACs retrieved when appropriate.¹¹

To determine whether DOF issued SCRIE benefits on behalf of tenants identified as deceased, we reviewed the listing of 1,124 deceased tenants identified in SSADMF and NAPHSIS for our scope period. We randomly selected a total of 80 tenants who were identified as deceased in both death matches and determined whether DOF (1) ceased issuing TACs to landlords for households in which the deceased tenants had no other eligible household members; and (2) where appropriate, retrieved the appropriate amounts.

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis to assess DOF's controls over the issuance of TACs to landlords.

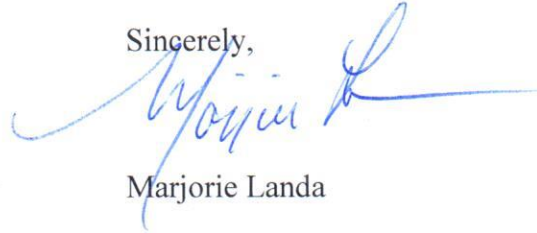
The matters covered in this report were discussed with DOF officials during and at the conclusion of this audit. A preliminary letter report was sent to DOF and discussed at an exit conference held on April 10, 2019. On April 26, 2019, we submitted a draft letter report to DOF with a request for comments. We received a written response from DOF on April 26, 2019. In its response, DOF agreed with the report's findings and recommendation. Regarding the finding that DOF erroneously paid TAC benefits on behalf of six tenants whose incomes exceeded the required

¹¹ Deceased tenants without an eligible household member, or tenants who move from a rent-regulated apartment to a non-regulated apartment or outside of New York City are no longer eligible for SCRIE benefits.

Commissioner Jacques Jiha
May 7, 2019
Page 6 of 6

\$50,000 threshold, DOF responded, “we bring such errors to the attention of the reviewers and use them as a coaching and staff development opportunity”.

Sincerely,



Marjorie Landa

- c: Sam Mayer, Senior Auditor Director, Department of Finance
- Celia Carino, Director of Internal Audit, Department of Finance
- Jeff Thamkittikasem, Director, Mayor’s Office of Operations
- George M. Davis, III, Deputy Director, Mayor’s Office of Operations



Department of Finance

Property Division
66 John Street, 12th flr
New York, NY 10038

April 26, 2019

Ms. Marjorie Landa
Deputy Comptroller for Audit
Office of the City Comptroller
1 Centre Street, Room 1100 North
New York, NY 10007

Re: Draft Audit Report on the Department of Finance's Administration of the Senior Citizen Rent Increase Exemption (Audit Number MG18-097AL)

Dear Deputy Comptroller Landa:

The Department of Finance (DOF) hereby provides its response to the draft report on the Senior Citizen Rent Increase Exemption (SCRIE) audit referenced above. We concur with the audit's finding that DOF has adequate controls in place to ensure that the property tax abatement credits (TAC) issued to landlords are appropriate.

The report cites six cases in which a total of \$8,677 in TAC payments were not recouped due to processing error. It is the policy of the agency to remove any erroneously issued tax abatement credits during the SCRIE application review process. We bring such errors to the attention of the reviewers and use them as a coaching and staff development opportunity.

Please do not hesitate to contact my office if you have questions or would like additional information.

Sincerely,

Timothy Sheares
Deputy Commissioner, Property

Cc: Jacques Jiha, PH.D., Commissioner
Michael Hyman, first Deputy Commissioner
Sam Mayer, Senior Director, Internal Audit
Pierre Dejean, Assistant Commissioner, Property
Bibi Parmar, Senior Director, Senior and Disabled Programs