



City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER



Special Reports & Investigations

Maura Hayes-Chaffe

Deputy Comptroller for Audit

Audit Report on the New York City
Department of Finance's Administration
of Senior Citizen Homeowners'
Exemption Program

SR21-080A

June 29, 2022

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BRAD LANDER

June 29, 2022

To the Residents of the City of New York:

My office has audited the Department of Finance (DOF) to determine whether it ensures that property owners receiving the Senior Citizen Homeowners' Exemption (SCHE) meet the eligibility requirements of the program. We audit entities 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 DOF generally followed its process to ensure that all owners and co-owners receiving the SCHE met the eligibility requirements to receive the exemption. Moreover, the audit found that DOF improved certain aspects of its controls over the exemption process identified in a prior audit which found that DOF had granted the SCHE to ineligible properties including those owned by corporations. DOF reduced the number of ineligible properties granted the SCHE by 95%.

Nevertheless, the auditors identified errors that resulted in \$3,076,362 in lost tax revenue during Fiscal Years 2019 and 2020. Specifically, DOF granted the SCHE to 107 properties after the homeowner(s) had died, resulting in property tax revenue losses of \$1,522,078. DOF also incorrectly prorated the SCHE granted to 87 properties containing four or more units, resulting in a loss of \$1,554,284 in property tax revenue.

The audit makes three recommendations that DOF should: (1) ensure that it follows its procedures and removes the exemption for deceased homeowner(s), either the first day of the next quarter following the date of death or the beginning of the tax year (July 1), whichever is later; (2) collect all tax revenue that was due and owing, by: (a) recovering the \$1,522,078 in erroneous exemptions that were applied to properties after the qualifying homeowner(s) were deceased and (b) recovering the \$1,554,284 in excessive exemptions that were granted to properties containing four or more units; and (3) ensure that in properties containing four or more units, the SCHE is only prorated to the owners' unit being utilized as a primary residence.

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 black ink, appearing to read "B. Lander".

Brad Lander
New York City Comptroller

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER SPECIAL REPORTS & INVESTIGATIONS

Audit Report on the New York City Department of Finance's Administration of the Senior Citizen Homeowners' Exemption Program

SR21-080A

EXECUTIVE SUMMARY

The Department of Finance (DOF) is responsible for administering the Senior Citizen Homeowners' Exemption (SCHE) Program which provides a partial property tax exemption for senior citizens who own one, two, or three family homes, condominiums, or cooperative apartments in New York City (the City). The SCHE can reduce the assessed value of a property by five to 50% depending on the owners' income.

Homeowners must complete an initial tax benefits application prior to receiving the exemption the first time and a renewal application every 24 months from the date the exemption was granted. A homeowner can own more than one property; however, they may only have one primary residence and receive the SCHE only on that property. For a property with four or more residential units, the SCHE must be prorated to the percentage of space being utilized as the owner's primary residence.

Audit Findings and Conclusion

Generally, DOF followed its process to ensure that all owners and co-owners receiving the SCHE met the eligibility requirements to receive the exemption. Moreover, the audit found that DOF improved certain aspects of its controls over the exemption process identified in a prior audit which found that DOF had granted the SCHE to ineligible properties including those owned by corporations. DOF reduced the number of ineligible properties granted the SCHE by 95%.

Nevertheless, the auditors identified errors that led to a loss of property tax revenue of \$3,076,362 during Fiscal Years 2019 and 2020. Specifically, DOF granted the SCHE to 107 properties after the homeowner(s) had died, resulting in property tax revenue losses of \$1,522,078. DOF also incorrectly prorated the SCHE granted to 87 properties containing four or more units, resulting in a loss of \$1,554,284 in property tax revenue.

Audit Recommendations

Based on the audit findings, the auditors make the following three recommendations.

DOF should:

1. Ensure that it follows its procedures and removes the exemption for deceased homeowner(s), either the first day of the next quarter following the date of death or the beginning of the tax year (July 1), whichever is later.
2. Collect all tax revenue that was due and owing, by:
 - a. Recovering the \$1,522,078 in erroneous exemptions that were applied to properties after the qualifying homeowner(s) were deceased;
 - b. Recovering the \$1,554,284 in excessive exemptions that were granted to properties containing four or more units.
3. Ensure that in properties containing four or more units, the SCHE is only prorated to the owners' unit being utilized as a primary residence.

Agency Response

In its response, DOF stated that it implemented Recommendations #1 and #3, but that it will not implement Recommendation #2.

AUDIT REPORT

Background

New York State Real Property Tax Law (RPTL) § 467 requires homeowners to complete an initial tax benefits application prior to receiving the exemption the first time, and a renewal application must be completed every 24 months from the date the exemption was granted. All initial applications must be submitted by or postmarked on March 15 for the exemption to begin on July 1 of the same year.¹ The December 2020 COVID-19 Emergency Eviction and Foreclosure Prevention Act changed the requirement for SCHE recipients to renew their benefits for 2020.² All owners and co-owners must show satisfactory proof of age, ownership of property, residence, and income.

In 1998, the Small Business Risk Portfolio Score (SBRPS) issued Opinion Number 64 stating that a property with four or more residential units would require the SCHE to be prorated to the percentage of space being utilized as the owner's primary residence. A homeowner can own more than one property but can only receive the SCHE on their primary residence.

If DOF granted the SCHE to properties that were ineligible to receive the exemption in prior years, New York State's *Exemption Administration Manual Pertaining to the Partial Tax Exemption on Real Property of Senior Citizens* states that a "municipality may rescind the exemption in a subsequent year."

To qualify for the SCHE, an applicant must meet the following criteria:

- All owners must be 65 years of age or older by December 31 of the tax year that they apply;³
- The property must have been owned by at least one of the current owners for the equivalent of 12 consecutive months prior to filing the application;
- The prior year combined income of all owners and their spouses cannot be more than \$58,399;⁴ and
- All owners must occupy the property and have it as their primary residence unless one of the owners is not living there due to divorce, legal separation, abandonment, or is receiving care in a healthcare facility and the other owners on the deed currently occupy the property.

DOF's Property Exemptions Administration for Senior and Disabled Programs is responsible for intake, review, and processing of SCHE applications. They ensure that the age, primary residency, ownership, and income requirements are met for initial applications, that benefits are removed upon determination that the household is no longer eligible due to either a property's transfer or

¹ Benefits applications can be submitted either online or mailed to DOF and should the due date fall on a weekend or national holiday the deadline will be the next business day.

² Senate Bill S9114 required DOF to carry over exemptions from 2020 assessment roll to the 2021 assessment roll at the same level and provide renewal applications for individuals who may be eligible for a larger exemption or those believed to be ineligible for the exemption in 2021.

³ Where the owners are husband and wife, or are siblings, only one spouse or sibling must be 65 years or over.

⁴ The income of a spouse can only be excluded if the spouse is absent due to being deceased, divorce, legal separation, or abandonment. DOF's website states that income includes, but is not limited to, Social Security payments, salary or wages (including bonuses), unemployment benefits, retirement or pension payments, interest, IRA earnings, capital gains, net rental income, and business income.

the recipient being deceased, and that adjustments made by the Tax Commission are instituted correctly. DOF informed auditors that it runs an Automatic Vitality Verification to search the Social Security number against death information at National Association for Public Health Statistics and Information Systems (NAPHSIS) on a quarterly basis. If the death match identifies the owner as deceased, the exemption is terminated effective either the first day of the next quarter following date of death or the beginning of the tax year, whichever is later. When the death match identifies one deceased homeowner in properties with multiple homeowners, the Processing Unit reviews and updates the records to reflect the death of the owner and to update the secondary owner's information. DOF mails out correspondence to homeowners with updated records and provides a 30-day response time. Benefits are revoked for non-responders and responders are reviewed for eligibility to receive the exemption.

During Fiscal Year 2019, there were 49,554 exemptions for 43,700 properties totaling approximately a \$728 million reduction in assessed values, and 50,163 exemptions for 44,599 properties in Fiscal Year 2020 totaling approximately a \$778 million reduction in assessed values.

Objective

To determine whether DOF ensures that property owners receiving the Senior Citizen Homeowners' Exemption 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 includes Senior Citizen Homeowners' Exemption received by property owners during the period July 1, 2018 to April 22, 2022.

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 on May 12, 2022 and discussed with DOF officials at an exit conference held on May 25, 2022. On May 31, 2022, we submitted a draft report to DOF with a request for written comments. We received a written response on June 17, 2022.

In its response, DOF generally agreed with the audit's findings and recommendations, stating that two of the three recommendations had been implemented, and that one recommendation would not be implemented. For the recommendations the agency identified as implemented, DOF refers to its existing policies and procedures but does not address the audit's findings. For the recommendation that will not be implemented, DOF stated that its "longstanding policy is not to recover monies from individual homeowners due to an agency oversight, such as the late discovery of ineligibility."

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

FINDINGS AND RECOMMENDATIONS

The audit found that DOF generally followed its process to ensure that all owners and co-owners receiving the SCHE met the eligibility requirements to receive the exemption. SCHE applications and accompanying documentation were reviewed in accordance with DOF's policies, and procedures ensuring that age, ownership, residency, and income requirements were met. Moreover, the audit found that DOF improved certain aspects of its controls over the exemption process that were identified in a prior audit. In that audit, issued on July 7, 2016, the auditors found that DOF granted the SCHE to ineligible properties, including those owned by corporations. In the current review, the auditors found DOF reduced the number of ineligible properties granted the SCHE by 95% as compared to the prior audit.⁵ This is a noteworthy improvement.

Nevertheless, the auditors conducting the current review still identified errors that led to a loss of property tax revenue of \$3,076,362 during Fiscal Years 2019 and 2020. Specifically, DOF granted the SCHE to 107 properties after the homeowner(s) had died, resulting in property tax revenue losses of \$1,522,078. DOF also prorated the SCHE granted to 87 properties containing four or more units, incorrectly. These properties received excessive SCHE amounts to which they were not entitled, resulting in a loss of property tax revenue of \$1,554,284.

DOF Granted the SCHE to Properties of Deceased Owners

DOF did not remove the SCHE from 107 properties after the death of the property owner(s). For the list of 50,163 exemptions in Fiscal Year 2020, the auditors verified whether homeowners receiving the SCHE were deceased by comparing DOF's Fiscal Year 2020 list of property owners receiving the SCHE and their respective Social Security numbers against Social Security Date of Death Verification Inquiry records and found 692 exemptions being applied to properties with at least one deceased homeowner.⁶ For instance, auditors found that a property with the borough, block and lot (BBL) identified as Borough 4 (Queens), Block 9949, and Lot 79, received SCHE for \$28,544 in Fiscal Year 2020. However, the owner of the property had died November 27, 2018.

The auditors followed up with DOF regarding the 692 exemptions and were told that DOF had revoked 301 exemptions, would revoke a further 18 exemptions, and had updated co-owner information for 373 exemptions.

The auditors' review of the 301 exemptions that should have been revoked and the 18 exemptions to be revoked found that the SCHE was being applied to 107 properties after the property owners had died for a total loss of property tax revenue of \$1,522,078. The auditors determined the number and amount improperly granted on the first day of the quarter following the date the homeowner died or the beginning of the next tax year, whichever is later. After DOF was informed of these preliminary findings, the agency reviewed and removed the 107 exemptions. The loss of property tax revenue for Fiscal Years 2019 and 2020 for these 107 exemptions was \$1,522,078. DOF updated the information for the remaining 373 exemptions to reflect co-owners who were eligible to continue receiving the exemption.

⁵ Audit #SR16-087A *Audit Report on the New York City Department of Finance's Administration of the Senior Citizen Homeowner's Exemption Program*.

⁶ The SSA's death records were found within Team Content – SSA Date of Death Verification Inquiry in the City Human Resource Management System (CHRMS).

DOF Did Not Accurately Prorate the Exemption for Properties Containing Four or More Units

DOF did not accurately prorate exemptions for 87 properties containing four or more units. The auditors' review of 531 such properties receiving the SCHE identified 101 properties that were granted excessive SCHE amounts to which they were not entitled. These properties each had four or more units but did not appear to have their exemption correctly prorated to the unit that was the owner's primary residence.⁷ The auditors followed up with DOF regarding these properties and DOF corrected the percentage amount per unit for 87 of the 101 properties.

Incorrectly prorating the 87 properties resulted in a loss of property tax revenue. For example, among the 87 properties identified, the auditors found a four-unit apartment building with the BBL identified as Borough 4 (Queens), Block 2181, and Lot 4 that received exemptions of \$108,625 in Fiscal Year 2020. Prorating the exemption to one of the four units would reduce the SCHE to \$27,156. DOF's failure to prorate the exemption for this property resulted in DOF underbilling and foregoing additional tax revenue of \$81,469 for this building.

The difference between the SCHE DOF applied to the 87 properties and the prorated amount to which the properties were legally entitled resulted in DOF underbilling and foregoing tax revenue of \$1,554,284. For the remaining 14 exemptions, DOF found that it had the correct percentage amount per unit.

Recommendations

DOF should:

1. Ensure that it follows its procedures and removes the exemption for deceased homeowner(s), either the first day of the next quarter following the date of death or the beginning of the tax year (July 1), whichever is later.

DOF Response: DOF stated that the recommendation was implemented and referred to its existing policies and procedures.

Auditor Comment: The auditors acknowledge that the requirement to remove the exception from the properties of deceased homeowners already appears in written policies and procedures. However, as errors were still found during the audit, the auditors recommend that DOF consider additional ways to ensure that its procedures are followed in all instances.

2. Collect all tax revenue that was due and owing, by:
 - a. Recovering the \$1,522,078 in erroneous exemptions that were applied to properties after the qualifying homeowner(s) were deceased;
 - b. Recovering the \$1,554,284 in excessive exemptions that were granted to properties containing four or more units.

DOF Response: DOF disagreed with this recommendation. Please refer to the addendum for DOF's response.

⁷ If the property contains four or more residential units, only the percentage used for a primary residence is eligible for SCHE. For example, if the property is a four-family dwelling and the primary residence of the senior is in one of the four dwellings, the percentage used as primary residence is 25%. An entire structure would qualify for the exemption if the property contains three or fewer units.

Auditor Comment: Notwithstanding DOF's disagreement, the recommendation remains. In the interest of fiscal integrity, the auditors urge DOF to collect or attempt to collect all monies due to the City, even if the liability was generated as a result of a DOF error.

3. Ensure that in properties containing four or more units, the SCHE is only prorated to the owners' unit being utilized as a primary residence.

DOF Response: DOF stated that the recommendation was implemented and referred to its existing policies and procedures.

Auditor Comment: The audit found that DOF did not always follow its existing policies and procedures, which allowed SCHE to be incorrectly prorated. The auditors recommend that DOF consider additional ways to ensure that its procedures are followed and that properties containing four or more units are prorated correctly.

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 of this audit includes Senior Citizen Homeowners' Exemption received by property owners during the period July 1, 2018 to April 22, 2022.

To obtain an understanding of the internal controls and the Senior Citizens Homeowners' Exemption process, the auditors interviewed DOF officials. To achieve the audit objective, the auditors reviewed DOF's *Senior Citizen Homeowner Exemption (SCHE) Program Manual, the New York State Real Property Tax Law § 467, NY State Senate Bill S9114, 2020 COVID-19 Emergency Eviction and Foreclosure Prevention Act, New York State's Exemption Administration Manual Pertaining to the Partial Tax Exemption on Real Property of Senior Citizens*, Audit Report on the New York City Department of Finance's Administration of the Senior Citizen Homeowner's Exemption Program (SR16-0897A), issued on July 7, 2016, and *New York State Volume 10 – Opinions of Counsel SBRPS Number 64*.

The auditors requested a list of properties receiving exemptions and exemption amounts for Fiscal Years 2019 and 2020, including the BBL, owner's name, address, and Social Security number. The list of properties received included information such as the parcel identifier, owner name, owner Social Security number, building class, and address. In Fiscal Year 2019, there were 49,554 exemptions for 43,700 properties resulting in a \$728 million reduction in assessed values, and in Fiscal Year 2020, there were 50,163 exemptions for 44,599 properties resulting in a \$778 million reduction in assessed values. To determine the completeness of the files received, the auditors utilized the Fiscal Year 2019 and 2020 Final Assessment Rolls and selected a random sample of 50 properties from each list, for a total of 100 properties. The auditors compared the sample of properties to the Assessment Rolls and matched all 100 properties to the Assessment Rolls and determined that the lists of SCHE for Fiscal Years 2019 and 2020 were reliable.

The auditors compared the list of properties receiving exemptions for Fiscal Years 2019 and 2020 and found that 5,400 new exemptions started in Fiscal Year 2020. The auditors focused on the list of exemptions for 2020 as it best reflected DOF's activities and changes over the audit scope period. Changes made during the transition from FY19 to FY20 were reflected in FY20. The FY20 list provided auditors with the most accurate number of exemptions and information for the scope period. To determine whether homeowners received exemptions on multiple properties, the auditors checked for duplicate Social Security numbers on DOF's 2020 list of properties receiving SCHE.

To determine whether DOF removed the SCHE from properties where the owner is deceased, the auditors used the SSA's death records located in the CHRMS database to match all the Social Security numbers of property owners that DOF listed as receiving the exemption in Fiscal Years 2019 and 2020. To check the amount of tax revenue loss to the City, the auditors then calculated the dollar value of taxes that DOF incorrectly exempted excluding one tax period from the date the homeowner(s) deceased.

To determine whether DOF granted excessive Senior Citizen Homeowners' Exemptions to properties with four or more units, the auditors selected all properties with a building class of C1, C2, C3, C4, C5, S3, S4, S5, and S9 from the 2020 Final Assessment Roll. These building classes represent buildings with residential units of four or more. The auditors examined the Final Assessment Rolls for each BBL, which verified building class and exemption amounts for the period and calculated the assessed value of each property based on the percentage reduction allotted per the owner's income amount.

The results of the above tests, while not statistically projected to their respective populations, provided a reasonable basis for the auditors to assess whether DOF properly administered the Senior Citizen Homeowners' Exemptions granted to property owners.

City of New York
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June 16, 2022

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New York, NY 10007
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Re: Response to Report on Audit of the New York City Department of Finance's (DOF) Senior Citizen Homeowners' Exemption (SCHE) Program (#SR21-080A)

Dear Deputy Comptroller Hayes-Chaffe,

The Department of Finance (DOF) hereby provides the following response to the recommendations in the above-referenced audit report.

RECOMMENDATIONS:

1. **Ensure that it follows its procedures and removes the exemption for deceased homeowner(s) either the first day of the next quarter following the date of death or the beginning of the tax year (July 1), whichever is later.**

Response: *Implemented*. DOF's existing policy includes removing benefits when a homeowner is deceased. The agency has several milestones for SCHE revocations from the date of death, including:

- From notifications before and throughout the biennial renewal process
- Via notification from Request to Remove Applicants, and
- During quality reviews of new benefit applicants

In addition, DOF's annual Vitality Verification process, where death records are run against existing beneficiaries, detects ineligible properties. SCHE benefits are removed as of January 1st, the beginning of the next billing quarter following notification in October.

2. **Collect all tax revenue that was due and owing, by:**
 - a. **Recovering the \$1,522,078 in erroneous exemptions that were applied to properties after the qualifying homeowner(s) were deceased:**
 - b. **Recovering the \$1,554,284 in excessive exemptions that were granted to properties containing four or more units.**

Response: *Will Not Implement*. DOF's longstanding policy is not to recover monies from individual homeowners due to an agency oversight, such as the late discovery of ineligibility. The Property

Exemptions Compliance unit works to minimize such occurrences. It would be unfair to retroactively recoup benefits from taxpayers, such as in the cases below where DOF did not apply a proration method to properties with four or more units. As noted in #3 below, DOF has since addressed the proration issue.

For example, in Borough-Block-Lot # 4-9499-8, a four-unit home was receiving an incorrect reduction for two tax years prior, then the owner died, and DOF revoked the benefit. DOF would have had to issue a retroactive bill to the estate for \$15,615 due to the agency's error.

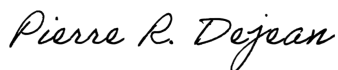
Another example, in Borough-Block-Lot # 4-8856-125, a four-unit home was receiving an erroneous SCHE for one year, then the owner died, and the property was subsequently sold. In this instance, DOF would have to bill the new property owner, \$3,949.

Please note, that the agency retroactively revokes exemptions received improperly by properties owned by business entities.

3. Ensure that in properties containing four or more units, the SCHE is only prorated to the owners' unit being utilized as a primary residence,

Response: **Implemented.** DOF conducts quality reviews on all properties granted and renewed prior to the publication of the tentative and final tax rolls. This quality review, aims to ensure that SCHE benefitting properties containing four or more residential units or non-residential space, have been prorated correctly. Additionally, in DOF's Property Tax System (PTS), we implemented backend coding, which prevents the automatic approval of applications where the property contains four or more units or non-residential space. The flagged application(s) are manually reviewed by processors to verify that the SCHE benefit is correctly prorated to the owner's unit.

Sincerely,



Pierre Dejean, Assistant Commissioner

C: Michael Hyman, First Deputy Commissioner
Timothy Sheares, Deputy Commissioner
Sam Mayer, Assistant Commissioner, Internal Audit
Rose Horton, Director, Property Exemptions Administration's Compliance Unit
Celia Carino, Senior Director, Internal Audit
Sean Marani, Assistant Director, Internal Audit