



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

March 13, 2015

Kenneth Adams  
Acting Commissioner  
Department of Taxation and Finance  
William A. Harriman State Campus  
Building 9, Room 217  
Albany, NY 12227

Re: 2014 Family Tax Relief Credit Audit  
Report

Dear Acting Commissioner Adams:

This letter summarizes the findings and recommendations resulting from our Office's examination<sup>1</sup> of Department of Taxation and Finance (Department) requests for payment to taxpayers for the Family Tax Relief Credit (FTC). The Department approved more than one million FTC payments requests totaling more than \$357 million. The objective of our examination was to determine whether the FTC payment requests approved by the Department were appropriate and processed in accordance with New York State Tax Law.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. The officials agreed with the findings and stated that for the 2015 tax year the Department will build relevant edits into its fraud-detection systems to mitigate the vulnerabilities we identified.

In 2013, Article 22, Part 1, §606 of the New York State Tax Law (Law) was amended to allow eligible taxpayers to receive a \$350 FTC payment in 2014. To be eligible, taxpayers must have met the following criteria on their 2012 State tax return: claim a dependent who was less than 17 years old, earn at least \$40,000, but not exceeding \$300,000, be a New York State resident, and have a tax liability greater than or equal to zero. For tax year 2014, the Department requested more than one million FTC payments totaling more than \$357 million.

The Department's automated Case Identification and Selection System (CISS) selects tax returns for audit based on pre-determined business rules and predictive models. The Department used

---

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

CISS to provide reasonable assurance that taxpayers' 2012 tax returns were free from fraud. In addition to CISS, the Department separately analyzed the returns to ensure FTC payments met the legal criteria for payment. Overall, however, the Department did not consider certain potential fraud schemes relevant to FTC payments.

Using a risk-based approach, we examined 1,857 FTC payment requests totaling \$649,950. We found that all payment requests based on taxpayers' 2012 tax returns met the criteria in the Law. However, we identified and returned to the Department 1,486 questionable payment requests totaling \$520,100 for follow-up evaluation and appropriate action, including:

- 666 payment requests totaling \$233,100 with questionable payment addresses. This includes 56 payment requests totaling \$19,600 addressed to a New York State tax return preparer that had previously submitted fraudulent tax returns.
- 631 payment requests totaling \$220,850 for questionable dependent information, such as: same dependents claimed by multiple taxpayers, dependents and taxpayers with the same social security numbers, and dependents with invalid social security numbers.
- 94 payment requests totaling \$32,900 because the Department used taxpayers' 2011 and/or 2013 electronic tax return information to determine FTC eligibility. The Department did so because electronic data was unavailable for some taxpayers' 2012 returns. Our review of the taxpayers' 2012 paper returns showed that 94 taxpayers did not meet the criteria required by Law.
- 68 payment requests totaling \$23,800 to deceased taxpayers.
- 27 payment requests totaling \$9,450 for other questionable taxpayer-provided information or scanning errors.

To date, our Office has worked with the Department and approved \$70,350 for 201 of the previously stopped payment requests. For the remaining 1,285 stopped payment requests totaling \$449,750, the Department will require taxpayers to submit an application to the Department if taxpayers believe they are eligible for FTC.

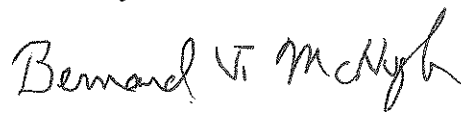
We appreciate the Department's prompt review of questionable payment requests identified by our Office and acknowledge its diligence throughout the examination.

**Recommendations**

- 1) *Evaluate all applications submitted for the 1,285 disqualified payment requests that remain and take appropriate action.*
- 2) *In the future, consider additional potential fraud schemes when designing systems to review new tax payment initiatives.*

We thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors. Since your response to our report is in agreement with these recommendations, there is no need for further response unless you feel otherwise. If you choose to provide a response, we would appreciate receiving it by April 10, 2015 indicating any actions planned to address the recommendations in this report.

Sincerely,



Bernard J. McHugh  
Director of State Expenditures

Enc: Attachment A

cc: James Brunt, Director of Internal Audit  
Lynne Belokopitsky, Director of Personal Income Tax Bureau  
Joe Carzo, Director of Tax Audits  
Edward Chaszczewski, Deputy Commissioner



STATE OF NEW YORK  
Department of Taxation and Finance  
W. A. Harriman Campus  
Albany, NY 12227

EDWARD CHASZCZEWSKI  
DEPUTY COMMISSIONER  
PROCESSING & TAXPAYER SERVICES

February 27, 2015

Bernard J. McHugh  
Director of State Expenditures  
Office of the State Comptroller  
110 State Street  
Albany NY 12236

RE: 2014 Family Tax Relief Credit Draft Audit Report

Dear Mr. McHugh:

This is in response to your draft report concerning the 2014 Family Tax Relief Credit (FTC) payments issued to taxpayers in September of 2014.

The Department engaged a cross-divisional work group to develop the selection criteria for the FTC payments, focused on ensuring only eligible taxpayers received these payments; OSC on-site Auditors participated in some of these discussions. The Department processed 1,021,206 FTC advance payments and held back 6,037 payments where eligibility was questionable. We appreciate OSC's identification of 1,486 additional questionable payments, including the 201 cases where eligibility was later verified. Of the remaining 1,285 stopped payment requests referenced in the report, the Department to date has received applications for and approved 161 FTC payments.

For Tax Year 2015, the FTC will be claimed as a credit on personal income tax returns, and we will build relevant edits into our fraud-detection systems to mitigate the vulnerabilities identified in this report. We look forward to our continued partnership with OSC on these efforts.

The Department would like to thank the OSC auditors for their professionalism during the course of this project.

Sincerely,

A handwritten signature in cursive script, reading "Edward Chaszczewski".  
Edward Chaszczewski  
Deputy Commissioner