



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 12, 2019

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

Re: Report 2019-BSE08-01

Dear Commissioner Schmidt:

Our Office examined¹ personal income tax refunds (refunds) processed by the Department of Taxation and Finance (Department) during the period January 1, 2018 through December 31, 2018. In addition, our Office examined¹ property tax freeze, property tax relief, and school tax relief (i.e., STAR) credits (collectively referred to as credits) processed by the Department during the period July 1, 2017 through December 31, 2018. Our objective was to determine whether these refunds and credits approved by the Department were appropriate and complied with New York State tax laws and regulations.

Refunds

During our examination period, the Department approved and submitted to our Office 7.7 million refunds for payment totaling over \$10 billion. We returned 12,783 questionable or inappropriate refunds totaling \$41.3 million to the Department for follow up evaluation and appropriate action, as follows:

Reason for Returning Refunds	Number	Dollar Amount
Taxpayer claimed refundable personal income tax credits based on incorrect information, such as inaccurate number of dependents or understated income	10,426	\$ 32,557,869
Tax preparer submitted returns with refundable personal income tax credits based on incorrect and/or false information	1,467	4,583,947
Taxpayer used questionable social security number	617	1,677,659

¹ We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8(1) and (7), and Article VII, Section 111 of the State Finance Law.

Reason for Returning Refunds	Number	Dollar Amount
Taxpayer claimed incorrect income	141	1,443,445
Taxpayer reported incorrect withholdings	84	192,529
Taxpayer had questionable itemized deductions	2	34,789
Other	46	828,858
Total Refunds Stopped	12,783	\$ 41,319,096

To accomplish our objective, we used data analytics to identify high-risk refunds that warranted additional review by our Office. We reviewed eligibility criteria to determine whether the individual was eligible for the refund. When our audit determined that a portion or the entirety of the refund was questionable or inappropriate, we returned the entire refund amount to the Department for evaluation and appropriate action. We estimate that our efforts resulted in a savings of approximately \$23.6 million. We based this estimate on our analysis of prior audit results, which yielded an average savings of 57 percent of every dollar returned to the Department.

Credits

During our examination period, the Department approved and submitted to our Office over 4.9 million credits for payment totaling nearly \$1.7 billion. We returned 13,097 credits totaling \$6.9 million to the Department for follow-up evaluation and appropriate action. Of these, we determined 11,059 credits totaling \$5.9 million were questionable or inappropriate due to one or more of the following reasons: the homeowner or property may not have been eligible for the credit, the credit was incorrectly calculated or the credit was a duplicate. We returned the remaining 2,038 credits totaling \$1 million due to an invalid or incorrect mailing address, which may have delayed or prevented the credit from being delivered to the homeowner.

We also returned 57 payment files containing 45,822 credits totaling approximately \$18.6 million to the Department prior to the completion of our audit for correction and reprocessing. We returned these due to the high volume of credits for homeowners or properties that may not have been eligible, had data integrity or formatting issues, were miscalculated, and/or were duplicate.

For some of these payment files, we found the Department made its eligibility determination using the homeowner's income from a tax year other than the tax year specified by Real Property Tax Law. Based on our finding, the Department reviewed additional credits not yet submitted to our office and performed outreach to over 100,000 homeowners to obtain the income amount from the correct tax year to determine eligibility.

To accomplish our objective, we used data analytics to identify high-risk credits that warranted additional review by our Office. We reviewed eligibility criteria, assessment rolls, and additional sources of information to determine whether the credit processed by the Department was appropriate. When our audit determined that a portion or the entirety of the credit was questionable or inappropriate, we returned the entire credit amount to the Department for evaluation and appropriate action. Of the \$5.9 million questionable or inappropriate credits we returned to the Department, we estimate that our efforts resulted in a savings of approximately \$3.1 million. We based this estimate on our analysis of prior audit results, which yielded an average savings of approximately 52 percent of every dollar returned to the Department.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. Department officials did not identify specific actions planned to address the recommendations in the draft report, but did state they used our feedback and observations to achieve significant gains with the Department's speed and accuracy, particularly when issuing STAR credits. Department officials also indicated they will continue to use data analytics to evaluate personal income tax returns and further examine those with the greatest risk of errors or inappropriate claims.

Recommendations

- 1) *Review the 12,783 refunds totaling \$41.3 million identified in our examination to determine whether these are appropriate.*
- 2) *Review the 11,059 questionable or inappropriate credits totaling \$5.9 million we identified to determine whether these credits are appropriate.*
- 3) *Review the 2,038 credits with incorrect mailing addresses totaling \$1 million we identified, and resubmit with valid and correct mailing addresses.*
- 4) *Improve integrity and formatting issues with the Department's data files containing credits.*
- 5) *In accordance with Real Property Tax Law, ensure eligibility determinations are made using the appropriate tax year's income.*
- 6) *Continue working with our Office to identify and implement opportunities to help detect and prevent erroneous credits and refunds.*

We thank the management and staff of the Department for the courtesies and cooperation extended to our auditors and look forward to our continued collaborative relationship. We would appreciate your response to this report by October 11, 2019 indicating any actions planned to address the recommendations in the report.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Encl: Attachment A

cc: Andrew D. Morris
Michael Shollar
Joseph Carzo
Judith Farnan-Farago



OFFICE OF PROCESSING AND TAXPAYER SERVICES

MICHAEL SHOLLAR

Deputy Commissioner of Processing and Taxpayer Services

August 14, 2019

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

RE: Draft Report 2019-BSE08-01

Dear Mr. McHugh:

I write on behalf of the Department of Taxation and Finance ("the Department") in response to the draft report summarizing the Office of the State Comptroller's findings and recommendations regarding personal income tax refunds issued by the department from January 1, 2018, through December 31, 2018, as well as school tax relief ("STAR"), property tax freeze, and property tax relief credits issued by the Department from July 1, 2017, through December 31, 2018.

Of the over \$11.7 billion of refunds and credits issued by the Department, your Office approved 99.79% without the need for further review. The Department could not have achieved this level of success without the cooperation and commitment of your Office. Thank you.

During the period under review, we used the feedback and observations provided by your Office to improve our processing systems. As a result, we have seen significant gains in the Department's speed and accuracy, particularly when issuing STAR credits. And, the Department continues to use data analytics to evaluate every personal income return filed. This allows us to select the returns with the greatest risk of errors or inappropriate claims for further examination. As a result, we saved the taxpayers of the State of New York \$529 million in 2018.

We look forward to working closely with the Office of the State Comptroller to ensure the integrity of New York State's refund and credit programs.

Sincerely,

A handwritten signature in blue ink, appearing to be "Michael Shollar". The signature is stylized and fluid, with a long horizontal stroke at the end.

Michael Shollar