



Town of Chester Property Tax Exemptions

Report of Examination

Period Covered:

January 1, 2015 — August 2, 2016

2016M-325



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Chester, entitled Property Tax Exemptions. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Chester (Town) is located in Orange County (County) and has approximately 12,000 residents. The Town Board (Board), composed of the Town Supervisor and four Board members, is the legislative body responsible for overseeing the Town's operations. The Board is responsible for the general management and control of the Town's financial affairs. The Board contracts with the County for tax assessment services. The Tax Assessor (Assessor) is responsible for establishing values of real property so that school, County, Town and special district taxes may be equitably apportioned among property owners. The Assessor is also responsible for granting real property tax exemptions (exemptions) authorized under State and local laws.

The Town provides various services to its residents and businesses, including street maintenance, snow removal, police, recreation and general government administration. The Town's 2016 budgeted appropriations are approximately \$11.4 million, funded primarily by real property taxes and State aid.

Objective

The objective of our audit was to review the Town's property tax exemption process. Our audit addressed the following related question:

- Did the Assessor properly grant and monitor real property tax exemptions?

Scope and Methodology

We examined the Town's property tax exemption process for the period January 1, 2015 through August 2, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with the recommendations in the report. Appendix B includes our comment on an issue raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Property Tax Exemptions

The Assessor establishes the values of real property so that school, County, Town and special district taxes may be equitably apportioned among property owners. The Assessor is responsible for granting various real property tax exemptions (exemptions) authorized under State and local laws, such as partial exemptions for veterans, agricultural, senior citizens, physically disabled people with limited income, and business incentive exemptions. New York State Real Property Tax Law (RPTL) mandates that the Assessor grant exemptions only after a valid application with proper documentation is submitted and approved by the Assessor. Additionally, there are certain types of exemptions that may be granted only after the Board has approved the exemption. RPTL also mandates that exemptions be monitored by the Assessor.

The Town grants 28 types of residential exemptions and 26 nonresidential exemptions. The more common residential exemptions include ones for property owners that are veterans, fire/ambulance members and individuals 65 years of age or over. Nonresidential exemptions include exemptions for properties such as those owned by industrial development agencies, religious organizations, not-for-profit organizations, privately owned cemeteries and properties used for educational purposes. Each type of exemption requires the applicant to supply specific documentation along with the application to the Assessor.

The Town granted 3,760 residential property exemptions and 247 nonresidential exemptions for the 2016 fiscal year. The exemption for property owners 65 years or over is also based on an individual's household income and is calculated on a sliding scale (ranging from 5 to 50 percent).¹ Additionally, the exemption requires that an annual application be submitted with documentation to confirm the income and ensure that the exemption is still applicable. Likewise, exemptions for religious organizations' properties and not-for-profit organizations' properties also require an annual application be submitted with supporting documentation to confirm that the property still qualifies for the exemption.

The Assessor did not properly grant and monitor exemptions for both residential and nonresidential properties. We found exemptions that the Assessor granted but were included in the real property

¹ Senior exemptions based on household income range from income of \$24,000 or less receiving a 50 percent exemption to income between \$31,501 and \$32,400 receiving a 5 percent exemption.

service (RPS) software system with incorrect codes, with inaccurate amounts or both. Additionally, the Assessor did not have the proper documentation to support the exemptions for some properties. Further, the Assessor granted some exemptions that were not Board approved.

Residential Properties – We reviewed 40 randomly selected residential exemptions totaling \$6,321,000 in assessment value that were granted \$748,788 in exemptions and determined:

- Seven exemptions (18 percent) totaling \$83,220 had inaccurate codes. For example, three exemptions were recorded as Veterans with Eligible Funds. Two of them should have been recorded as Cold War-time Veteran, and the third should have been recorded as War-time Veteran with Disability.
- Ten exemptions (25 percent) totaling \$117,930 had inaccurate amounts. For example, one recorded as War-time Veteran with Disability had an exemption amount that was incorrect by more than \$32,000. The net tax impact was \$292.
- Four exemptions (10 percent) totaling \$54,285 did not have proper documentation. For example, one had no application on file.

Nonresidential Properties – We reviewed 25 randomly selected nonresidential exemptions (totaling \$21,286,500 in assessment value) that were granted \$20,720,410 in exemptions and determined:

- Seventeen exemptions (68 percent) totaling \$14,753,610 had inaccurate codes. For example, nine of the properties had an exemption code that does not exist.
- Four exemptions (16 percent) totaling \$404,910 had inaccurate amounts. For example, one personal residence assessed for \$245,000 was wholly exempt but does not qualify for this type of exemption.
- Five exemptions (20 percent) totaling \$496,410 did not have proper documentation. For example, there were three wholly exempt properties that did not qualify for exemptions because one was a personal residence (previously mentioned), one was a private road and one was a property that a fire district is listed as owning, but there is no sale agreement regarding the property on file.

We reviewed the four exemptions with inaccurate assessed amounts (totaling \$551,600 in assessment values).² There were \$404,910 in exemptions, or \$3,815 in property tax abatements, granted (based on 2016 real property tax rates) that were inaccurate.

According to the Assessor, once property exemptions are approved and entered into the RPS software system, transactions are not reviewed to ensure that they have been accurately entered. The Assessor also told us that he has not determined if proper paperwork is contained in all the files, specifically those exemptions that were granted prior to his becoming Town Assessor four years ago.

The failure to have someone verify exemption codes once entered into RPS and to verify and maintain adequate supporting documentation for the exemptions increases the risk that property owners could be receiving exemptions to which they are not entitled or receive exemption amounts which are inaccurate. If an inaccurate exemption is granted, other property owners may be paying more in property taxes than they should had the proper exemption amount been used.

Board Approval – According to RPTL, certain exemptions are required to be adopted by the Town by either a local law or resolution to authorize the use of the exemption on the assessment roll and establish the amount of the exemption. The Board did not establish by local law or resolution all the required exemptions. There are 15 types of exemptions that require Board approval on the Town’s assessment roll. Three types (20 percent) of the exemptions were not authorized by the Board. These include two types of veteran exemptions and a business investment property exemption.

The Board was unaware that it must authorize certain exemptions and the Town Clerk did not maintain older documents of authorizations done prior to 2014. If the Board does not approve the exemptions, they are not valid.

Recommendations

The Assessor should:

1. Review all exemptions once they are entered into RPS to verify that they are accurate.
2. Review all exemptions and verify that all necessary supporting documentation is maintained.

² The remaining nonresidential exemptions tested had no financial impact as they were clerical errors.

The Board should:

3. Review all exemption types and authorize by resolution only those they want to continue to allow.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

Supervisor – Alexander Jamieson

Town Board –

Hugh J. Murray
Claude Brischoux
Cynthia Smith
Robert Valentine

Town Justices –

Janet M. Haislip
Sharon Worthy-Spiegel

TOWN OF CHESTER

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Assessor – John S

Police Dept. – Daniel J. Doellin

November 14, 2016

Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear [REDACTED]

In response to Comptrollers Audit/Report of Examination to serve as the corrective action plan for the Town of Chester Assessor office.

Assessor acknowledges that some of the codes applied for veterans and some other exempt properties were incorrectly coded due to the lack of experience and know-how. Upon receipt of this report and conversations with the state comptroller personnel during and after the audit, the assessor has corrected any discrepancies on the parcels tested.

In the comptroller's report it states that some of the properties that received an exemption were lacking proper documentations for the current year/exemption, where there should have been one. However, based on RPTL, "The owner must file either (a) a properly completed application form prescribed by the Office of Real Property Tax Services (ORPTS) or any comparable application form. **If neither type of form is filed, the assessor may nevertheless grant the exemption provided he or she personally inspects the property and certifies in writing that it satisfies all of the requirements for exemption.**" In the case(s) that the documentation was not in the file, the assessor determined that the property still qualified for the exemption they received the prior year due to it still functioning as the entity. Site visits were conducted to verify these findings. I did not certify this in writing (due lack of experience on my part) and will going forward.

See
Note 1
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Assessor also notes that many of the tested parcels by the comptroller office were of property exemptions granted by prior assessor(s), and in one case of an exemption granted 20+/- years ago without documentation. It will take time but the assessor will go through as many files as possible to make sure all documents are present where needed.

Some of the other procedures noted in the audit were based on the town board having to adopt and write resolutions for some of the exemptions that they approved. Per the comptroller office they were lacking the documentation for this. Our intention is to go through and identify which these are and to draw up any proper documentation to correct this oversight.

In conclusion, conversations with the comptroller personnel during the audit were helpful in that it not only educated us regarding some of the property codes but also some of the many particular procedures that come along with it. The personnel that conducted the audit were helpful and pleasant throughout the whole process.

Cordially,

John Schuler, Assessor
Town of Chester

Alex Jamieson
Town of Chester, Supervisor

APPENDIX B

OSC COMMENT ON THE OFFICIALS' RESPONSE

Note 1

If the proper forms for recertification are not filed, then the assessor can certify in writing that he inspected the property and that it still qualified for an exemption. Without proper documentation on file certifying that the Assessor made site visits and verified that a property still qualified for an exemption, the Board has no assurance that the property qualifies for the exemption.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to gain an understanding of the Town's exemption process.
- We randomly selected a sample of 40 residential properties and 25 nonresidential properties to determine if the exemptions had the accurate codes, if the accurate exemption amounts were used and if exemptions had proper documentation.
- We reviewed Board Minutes and Local Laws to determine if the types of exemptions on the assessment roll were properly authorized.

We conducted this performance audit in accordance with GAGAS. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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