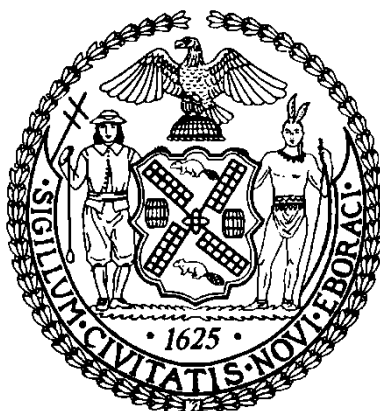


CITY OF NEW YORK OFFICE OF THE COMPTROLLER

**John C. Liu
COMPTROLLER**

MANAGEMENT AUDIT

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Audit Report on the Department of Finance's Administration of the Senior Citizen Rent Increase Exemption Program

MG11-053A

September 23, 2011



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

September 23, 2011

To the Residents of the City of New York:

My office has audited the adequacy of controls in place to ensure that property tax abatement credits (TACs) are appropriately issued to landlords in the Senior Citizen Rent Increase Exemption program (SCRIE) administered by the Department of Finance (DOF). We audit City operations such as this as a means of increasing accountability and ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

The audit found that DOF has inadequate controls in place to ensure that all TACs are appropriately issued to landlords. A major contributing factor is the absence of defined policies and procedures governing the process to help ensure that all TACs to landlords are made on behalf of eligible tenants. In fact, as a result of these inadequate controls, we cannot determine how much of the \$171.2 million in TACs issued during our 17-month scope period was made on behalf of eligible tenants. A portion of these benefits may be attributable to incomplete benefit transfers to eligible household members, thereby directly affecting the accuracy of DOF's database.

The audit makes seven recommendations to DOF, including that it should develop comprehensive policies and procedures for issuing TACs. The audit also recommends that DOF should periodically conduct matches to ensure that benefits are not issued on behalf of deceased tenants and that records are accurately updated and benefit transfers correctly performed.

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,


John C. Liu

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***The City of New York
Office of the Comptroller
Management Audit***

**Audit Report on the Department of Finance's
Administration of the Senior Citizen Rent
Increase Exemption Program**

MG11-053A

AUDIT REPORT IN BRIEF

The Department of Finance (DOF) administers a broad range of programs that offer tax credits, one of which is the Senior Citizen Rent Increase Exemption program (SCRIE). This program provides an exemption to eligible tenants from future rent increases and offers the landlords an equivalent credit on their property taxes. In return for the exemptions, the City pays property owners an amount equal to the difference between the last amount of rent paid by the tenant prior to applying for SCRIE and the current legal regulated rent. This amount is paid in the form of a property tax abatement credit (TAC) issued on behalf of the tenant to the landlord against the landlord's real estate taxes six months in advance.

Prior to September 18, 2009, SCRIE applications were processed by the Department for the Aging (DFTA) and TACs were issued by DOF. As of September 18, 2009, DOF also began processing initial applications and by January 2010, DOF was responsible for the entire SCRIE program. For the period July 1, 2009, through November 30, 2010, DOF issued \$171.2 million in TACs on behalf of 47,282 tenants. During this period, DOF also recouped \$8.9 million in previously issued TACs.

This audit determined whether DOF has adequate controls in place to ensure that TACs are appropriately issued to landlords.

Audit Findings and Conclusions

Our review found that DOF has inadequate controls in place to ensure that all TACs are appropriately issued to landlords. A major contributing factor is the absence of defined policies and procedures governing the process to help ensure that all TACs to landlords are made on behalf of eligible tenants. In fact, as a result of these inadequate controls, we cannot determine how much of the \$171.2 million in TACs issued during our 17-month scope period was made on behalf of eligible tenants. A portion of these benefits may be attributable to incomplete benefit transfers to eligible household members, thereby directly affecting the accuracy of DOF's database.

Since assuming responsibility for SCRIE, DOF has made some efforts to improve its controls. However, DOF has no controls in place that would allow it to identify when circumstances change (e.g., a tenant dies or moves out) and SCRIE benefits should be discontinued or transferred to another household member. We found during our review period (July 1, 2009 – November 30, 2010) that DOF issued more than \$11.8 million in TACs on behalf of 3,801 tenants who were reported as deceased as early as January 2000 and had TACs issued on their behalf ¹. DOF recouped only \$3.3 million of the TACs, leaving \$8.5 million that still needs to be investigated.

Audit Recommendations

To address these issues, we make seven recommendations, including that DOF should:

- Develop comprehensive policies and procedures for issuing TACs and for supervisory reviews of applications processed by staff. These policies and procedures should be enforced and communicated during periodic training sessions.
- Periodically match recipients listed in its databases with individuals listed as deceased in the Social Security Administration's Death Master File to ensure that benefits are not issued on behalf of deceased tenants and to identify TACs that may need to be recovered.
- Develop controls to ensure that when it does identify deceased tenants with eligible household members, that its records are accurately updated and that benefit transfers are correctly performed, listing the new tenant's date of birth and social security number.

Agency Response

DOF officials generally agreed to implement six of the seven recommendations in the report and disagreed with our recommendation to disable the SCRIE accounts of employees no longer associated with the program, contending that DOF has an existing process for automatically terminating access all of DOF's computer systems when employees leave. Regarding TACs that were issued inappropriately on behalf of tenants who were deceased, DOF identified \$9.9 million to be recouped. DOF officials contended that \$4.5 million of this amount was identified prior to receipt of the Comptroller's report and data, after they received notification about tenants who had moved or had died.

¹ We obtained this information using the Social Security Administration Death Master file as of March 2011. This file is electronic, updated monthly, and contains death records reported to SSA by family members, funeral homes, etc.

INTRODUCTION

Background

DOF administers a broad range of programs that offer tax credits, one of which is SCRIE. This program provides an exemption to eligible tenants from future rent increases and offers the landlords an equivalent credit on their property taxes. 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 from participating in the SCRIE program.

To be eligible for SCRIE, one must be at least 62 years of age, with a maximum household income of \$29,000 per year, pay more than one-third of the total household's disposable income for rent, and live in a rent-controlled, rent-stabilized, or hotel-stabilized apartment in New York City². In return for the exemptions, the City pays property owners an amount equal to the difference between the last amount of rent paid by the tenant prior to applying for SCRIE and the current legal regulated rent. This amount is paid in the form of a property tax abatement credit (TAC) issued on behalf of the tenant to the landlord against the landlord's real estate taxes. DOF authorizes the TACs and bi-annually transfers the credit to the building owner's property tax account six months in advance.

New applicants must return a signed SCRIE application, along with proof of age and income. Applicants residing in a rent-stabilized apartment must also submit signed copies of both old and new leases, indicating the monthly rent and lease dates. Applicants residing in a rent-controlled apartment don't have a lease and instead are required to submit copies of the old and new Notices of Maximum Collectible Rent³ issued by the New York State Division of Housing and Community Renewal. To remain eligible for SCRIE, all tenants must fill out and submit the automatically generated renewal application sent by DOF prior to the expiration of the lease⁴, along with proof of household income. Rent-stabilized tenants must also submit signed copies of their new leases. Failure to re-certify results in the termination of SCRIE benefits; however, there is a six-month grace period.

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 benefits transfer. If there is no other eligible household member, DOF is required to revoke the benefits and recoup previously issued TACs in the form of a debit adjustment going back to the first day of the month following the change in circumstances. The law provides no statute of limitations on the retroactive period for recoupment. If the landlord's account balance falls below zero because of a debit adjustment, DOF is required to add the debit balance to the next tax period.

² SCRIE is also available to seniors residing in Mitchell-Lama buildings; however, these applications are processed by the Department of Housing Preservation and Development and are not covered by this audit.

³ Because the Division of Housing and Community Renewal is often times delayed in issuing the Notices, DOF accepts and processes the rent-controlled applications without the notices.

⁴ Rent-stabilized tenants receive the renewals either every one or two years depending on the terms of the lease. Rent-controlled tenants receive the renewals every two years.

Prior to September 18, 2009, SCRIE applications were processed by DFTA and TACs were issued by DOF. As of September 18, 2009, DOF also began processing initial applications and by January 2010, DOF was responsible for the entire SCRIE program. For the period July 1, 2009, through November 30, 2010, DOF issued \$171.2 million in TACs on behalf of 47,282 tenants. During this period, DOF also recouped \$8.9 million in previously issued TACs.

Objective

To determine whether DOF has adequate controls in place to ensure that TACs are appropriately issued to landlords.

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 primary scope of this audit was TACs issued from July 1, 2009, through November 30, 2010. We extended the scope for our sample of deceased tenants to include TACs issued and recouped since the time of death through June 30, 2011. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

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 officials and discussed at an exit conference held on August 10, 2011. We submitted a draft report to DOF officials with a request for comments. We received a written response from DOF officials on September 8, 2011. In their written response, DOF officials generally agreed to implement six of the seven recommendations in the report and disagreed with the need to implement our recommendation to disable the SCRIE accounts of employees no longer associated with the program, contending that DOF has an existing process for automatically terminating access to all of DOF's computer systems when employees leave.

Regarding TACs that were issued inappropriately on behalf of tenants who were deceased, DOF identified \$9.9 million to be recouped. DOF officials stated:

“All 3,801 tenants have been reviewed and to-date 3,214 (of the 3,801) tenants have been revoked. 2,988 required a TAC debit. The TAC debit will appear as a property tax charge (if no remaining householder is SCRIE eligible) for the 2,988 tenants is \$9,962,247.43.”

DOF officials contended that \$4.5 million of the \$9.9 million cited above was identified prior to receipt of the Comptroller's report and data, after they received notification about tenants who had moved or had died.

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

FINDINGS AND RECOMMENDATIONS

DOF has inadequate controls in place to ensure that all TACs are appropriately issued to landlords. A major contributing factor is the absence of defined policies and procedures governing the process to help ensure that all TACs to landlords are made on behalf of eligible tenants. Without such policies and procedures, there exists an increased potential for error or fraud. In fact, as a result of these inadequate controls, we cannot determine how much of the \$171.2 million in TACs issued during our 17-month scope period was made on behalf of eligible tenants. A portion of these benefits may be attributable to incomplete benefit transfers to eligible household members, thereby directly affecting the accuracy of DOF's database.

Since assuming responsibility for SCRIE, DOF has made some efforts to improve its controls. For example, DOF is now conducting training sessions for SCRIE staff. In addition, as of November 2010, DOF began enforcing its requirement for all new applicants to submit proof of age and income. In doing so, DOF is provided with a moderate degree of assurance, specifically for the new applicants, that only eligible tenants receive SCRIE benefits.

However, DOF has no controls in place that would allow it to identify when circumstances change (e.g., a tenant dies or moves out) and SCRIE benefits should be discontinued or transferred to another household member. We found during our review period (July 1, 2009 – November 30, 2010) that DOF issued more than \$11.8 million in TACs on behalf of 3,801 tenants who were reported as deceased as early as January 2000 and had TACs issued on their behalf. DOF recouped only \$3.3 million of the TACs, leaving \$8.5 million that still needs to be investigated.

Even in instances when DOF did transfer SCRIE benefits to other household members, it failed to update the account information in its computer database, specifically information pertaining to the new household member's social security number. This, in turn, made it difficult to ascertain the new recipient's eligibility status. We also found other weaknesses pertaining to the inadequate maintenance of files as well as accounts of former employees that were not deactivated in a timely manner.

The details of these findings are discussed in the following sections of this report.

Inadequate Controls to Ensure the Proper Issuance of TACs

DOF has not created controls that would provide assurance that TACs to landlords are issued appropriately. DOF has not established comprehensive formal policies and procedures governing the agency's implementation of SCRIE. In addition, DOF lacks a mechanism to identify changes in circumstances that call for SCRIE benefits to either be discontinued or transferred to an eligible household member. These weak controls contribute to \$8.5 million in potentially ineligible benefits issued during our 17-month scope period on behalf of tenants who had died.

DOF Has Not Established Formal Procedures for SCRIE

DOF staff processed applications for an entire year without a policy and procedures manual and without any form of training. Currently, DOF still lacks defined policies and procedures for ensuring that all TACs issued to landlords are made on behalf of eligible tenants.

DOF began processing SCRIE applications as of September 2009; however, one year later—at the start of our audit—DOF still had not established policies and procedures that incorporate controls. DOF officials provided us with a number of resources that they used in place of a manual, such as snapshots of the SCRIE computer processing screen, along with various State and local laws and legislation. In addition, DOF drafted written guidelines—*SCRIE Processing*—and distributed it to its employees during the course of the audit (at a training session held on October 19, 2010). Prior to this date, DOF staff received limited guidance when it took over the program from DFTA.

Upon review of *SCRIE Processing*, we found it lacked specific policies. For example, the DOF step-by-step processing guide contains instructions that staff are required to use in order to physically process the applications. It does not, however, have sufficient controls to ensure that TACs are only made on behalf of eligible tenants. DOF also has no policies or procedures in place that require any form of supervisory reviews of applications that are processed.

The failure to institute controls and procedures to detect the issuance of inappropriate benefits may increase the risk that errors or fraud may occur and go undetected.

No Mechanism to Identify Changed Circumstances

DOF lacks a mechanism to identify instances in which SCRIE benefits may need to be discontinued because of a change in circumstances, such as a tenant's death, or when mail is returned or leases are not renewed. The absence of such a mechanism increases DOF's vulnerability in this area.

Benefits Issued on Behalf of Deceased Tenants

Currently, DOF relies on either the deceased tenant's landlord or family to notify it of a tenant's death. According to DOF regulations, landlords and the family of tenants receiving SCRIE are required to report a tenant's death within 30 days of death. Upon written notification of death and in the event that another eligible household member does not reside in the apartment, DOF is required to stop issuing TACs and is to determine whether excess benefits issued since the date of death need to be recovered from the landlord⁵.

However, if DOF is not notified of the death, then it will continue to issue additional TACS for the duration of the lease, even if the tenant dies within the first month of a 24-month lease. If DOF is not notified, then no TACs will ever be recovered. In addition, there is a possibility that for

⁵ DOF is required to stop TACs on the first day of the month following the date of death. Any amounts paid after that date are required to be retrieved from the landlord's account in the form of TAC reversals.

the duration of the lease, a landlord can continue to receive TACs on behalf of the deceased tenant, while at the same time rent the apartment at the legal market rate. Moreover, household members who are aware that they do not qualify for SCRIE may intentionally not come forward to report the death of the tenant so that they can continue to obtain the SCRIE benefits and have their rent frozen at a lower rate.

Periodically matching recipients listed in its payment databases with individuals listed as deceased in the Social Security Administration's Death Master File is one control that DOF can use to ensure that benefits are not issued on behalf of deceased tenants. DOF can also use the Death Master File to initiate recoupment procedures in a more timely manner. However, DOF officials told us that they check death records⁶ only upon receiving the written notification from a landlord or deceased relative reporting the death of a SCRIE tenant. Although applicants are now required to submit some supporting documents with their applications, applicants are not required to appear in person to apply for SCRIE. Applicants can apply online or via mail and DOF would never know whether someone was applying by fraudulently using a deceased individual's information.

DOF Response: "We disagree with the Comptroller's suggestion that we require applicants to appear in person to apply or renew applications in order to avoid possible fraudulent applications. It is not realistic nor practical to require our City's elderly to travel to DOF offices to submit documentation they can easily submit via mail."

Auditor Comment: The report makes no recommendation for applicants to appear in person. Rather, we note DOF's vulnerability to fraudulent SCRIE applications due to the fact that applicants are not required to apply in person. Later in this section, we identify a control previously used by DFTA—the issuance of verification letters to landlords—that DOF can use to help reduce this risk.

Upon review of 276 sampled tenants, we found death records associated with 146 (53 percent) of the tenants. DOF paid \$882,817 on behalf of 97 deceased tenants. The remaining 49 tenants either did not renew or the money was already retrieved. After additional research, however, we determined that 18 (19 percent) of the 97 tenants had remaining household members who also qualified for SCRIE benefits. DOF paid \$503,367 of the \$882,817 on behalf of these 18 tenants. For four of these tenants, the persons identified as the SCRIE beneficiary died between the years 1966 to 1982 and yet the records have still not been updated to reflect the current eligible household members. For these four tenants, DOF paid a total of \$358,559 of the \$503,367 identified as incorrect benefit transfers (since the time of death through June 30, 2011). Such imprecise categorization compromises the ability of DOF management to discern between those cases in which benefits should be discontinued and those in which benefits should be transferred. In addition, the accuracy of DOF's database is directly affected by its failure to perform proper benefit transfers. DOF needs to ensure that its records are accurately updated to reflect the correct head of household.

For the remaining 79 deceased tenants (the 97 tenants minus the 18 with remaining eligible household members), DOF issued \$379,450 in TACs for the duration of their lease and as of June 2011 had recouped \$13,012 of the benefits. (DOF received notification from the landlord or family of the deceased.) DOF should still investigate the remaining \$366,438 paid

⁶ Death records are found in the Social Security Death Index on RootsWeb.com.

on behalf of these tenants. Upon further review of the benefits issued on behalf of the deceased applicants, we found two instances where the applicants died mid-lease, and even after DOF officials were notified of the death, DOF continued to issue TACs totaling \$6,717 for the duration of both leases.

When we performed our own match using the Social Security Administration's Death Master File (as of March 2011), we found that 3,801 (8 percent) of the 47,282 tenants who received SCRIE benefits between July 1, 2009, and November 30, 2010, were listed as deceased as early as January 2000⁷. DOF issued more than \$11.8 million in TACs during this period on behalf of these tenants and recouped only \$3.3 million of the benefits, leaving \$8.5 million that needs to be investigated⁸.

DOF Response: "We found that the Comptroller over-stated the number of deceased tenants who had not been reported to DOF and the dollar value of SCRIE abatement credits that will be recouped as property tax charges."

Auditor Comment: DOF provided no evidence that it was aware of the aforementioned 3,801 tenants prior to our bringing it to their attention. Additionally, we do not identify a dollar value of credits to be recouped, but rather state that these credits should be investigated. Based on those investigations, DOF should recoup those amounts that were improperly awarded.

Because some of these benefits were issued prior to the time that DOF took over the program, we also analyzed the benefits issued after DOF assumed complete responsibility for SCRIE in January 2010. In doing so, we found that for the 11-month period of review (January 1, 2010, through November 30, 2010), DOF paid a total of \$8.3 million on behalf of 2,052 deceased tenants. DOF recouped approximately \$900,000 of this amount, leaving \$7.4 million that still needs to be investigated. (Of the 2,052 tenants, 653 of them died between December 2010 and March 2011. However, because TACs are issued six months in advance, the \$573,154 in benefits issued on behalf of these persons in November 2010 for the period January 2011 through June 2011 should also be investigated.)

In a number of the cases in which the tenants approved for SCRIE benefits passed away, there remained at least one member in their household who still qualified for SCRIE. In such a case, the benefits should be transferred to that person and the records updated with that person's social security number. In many instances, however, this update was not performed. As such, DOF should investigate the information currently contained in SCRIE and, in cases when the benefits are being transferred, update its records to reflect the new beneficiary or recoup funds in cases where there are no remaining household members eligible for SCRIE benefits.

DOF should also establish controls to identify tenants who do not have social security numbers, which are imperative in performing matches against the Social Security Administration's Death Master File. Applicants are not required to have a social security number to be part of the

⁷ For this 17-month period of review, DOF issued a total of \$171.2 million in TACs and reversed \$8.9 million, for net benefits issued of \$162.3 million on behalf of the 47,282 SCRIE tenants.

⁸ The TACs issued and reversed are for the period reviewed July 1, 2009, through November 30, 2010. The amounts may be greater or less if taking into account the periods before and after our period of review.

SCRIE program and, according to DOF officials, they create a fictitious social security number for SCRIE processing purposes for those tenants who lack one. One such control would be the issuance of verification letters to landlords, at least prior to the renewal of applications. This was previously used by DFTA and would allow the landlords to identify whether the tenants receiving SCRIE benefits are still alive.

DOF officials told us that they can always recoup from the landlord any funds that have been inappropriately issued and that they can do so without any time limits. However, if DOF is never notified and does not institute appropriate controls that would allow it to detect these situations, there is the possibility that the benefits issued may never be recovered. For example, DOF issued a total of \$14,849 on behalf of three tenants who died during the course of their leases between 2008 and 2009. However, because DOF was never notified, it had taken no action to recoup these benefits.

Returned mail

As stated earlier, one form of a control that DOF can use is to periodically match death records against the list of SCRIE recipients. Another method to aid DOF in identifying deceased tenants is the review of mail that has been returned from the post office as “undeliverable.” During one of our visits to DOF, we found seven boxes with undelivered mail waiting to be placed into storage. Each box contained approximately 500 returned envelopes that DOF had sent to tenants and that the post office had marked as “undeliverable.” DOF’s policy and procedures manual does not mention the process for reviewing returned mail, and DOF officials told us that they did not conduct reviews of returned mail. At the end of our audit, DOF officials stated that one individual is now solely responsible for the review of all “undeliverable” mail; however, we did not test this new control. Reviewing returned mail may serve as notification that a tenant no longer resides in the apartment and would alert DOF of the need to investigate whether TACs should be recouped or benefits transferred.

We found that some of the approximately 3,500 envelopes were opened; all envelopes were placed in a bin for later storage. We judgmentally selected 46 of these returned envelopes and found that 18 (39 percent) related to tenants in our sample who died. We found that DOF issued TACs totaling \$23,875 for 11 of the 18 tenants for periods after their death.

Applications that are Not Renewed

Another form of control that DOF can utilize would be to investigate the list of SCRIE recipients who do not renew their SCRIE application. Doing so may alert DOF to the fact that perhaps there has been a change in circumstances (e.g., tenant may have moved or died) that may have occurred during the prior SCRIE period. If so, an investigation may be warranted to determine whether any TACs should be recovered for the period after the move. This is all the more important to detect tenants who may have moved mid-lease. Because these tenants are still presumably alive, they would not be uncovered through other possible controls, such as a match against death records.

Recommendations

DOF should:

1. Develop comprehensive policies and procedures for issuing TACs and for supervisory reviews of applications processed by staff. These policies and procedures should be enforced and communicated during periodic training sessions.

DOF Response: “We agree that Policy and Procedure manuals are critical documents for any operation. A new supervisor was put at the helm of SCRIE in December and a new Assistant Commissioner was hired to oversee all exemption and abatements in January. ...the two of them have been working on a review of all processes and procedures with the aim to create Standard Operating Procedure (SOP) documents.) Several comprehensive final documents have recently been completed...staff are being trained on the final versions.”

2. Periodically match recipients listed in its databases with individuals listed as deceased in the Social Security Administration’s Death Master File to ensure that benefits are not issued on behalf of deceased tenants and to identify TACs that may need to be recovered.

DOF Response: “DOF is instituting a match of all our active SCRIE recipients to the Social Security Administration’s Death Master File (DMF) every month. We will match on Social Security Numbers. If no SCRIE eligible tenant remains in the apartment, the SCRIE abatement will be revoked the month following the date of death.”

3. Investigate the benefits issued on behalf of all the 3,801 deceased tenants - specifically, the \$379,450 that it paid on behalf of the 79 tenants cited in this report who died without any eligible household members.

DOF Response: “We researched the list of 79 tenants cited in the report who died without any eligible household member. . . All 79 tenants have been revoked from the SCRIE program and their tenant status has been changed to DEATH (versus ACTIVE OR INACTIVE). . . .

“All 3,801 tenants have been reviewed and to-date 3,214 (of the 3,801) tenants have been revoked. 2,988 required a TAC debit. The TAC debit will appear as a property tax charge (if no remaining householder is SCRIE eligible) for the 2,988 tenants is \$9,962,247.43.”

4. Develop controls to ensure that when it does identify deceased tenants with eligible household members, that its records are accurately updated and that benefit transfers are correctly performed, listing the new tenant’s date of birth and social security number.

DOF Response: “We have updated our procedures to ensure that DOF transfers the SCRIE benefit to eligible household members where appropriate. Our revised procedures require that a surviving household member who believes s/he is eligible for a benefit takeover must apply for SCRIE. The revocation notice sent to the tenant’s address has been amended to point the surviving household member to apply for a benefit takeover, and we have created an application for benefit takeover that can be downloaded from our website.”

5. Develop additional controls that would allow it to ensure that TACs are issued on behalf of eligible tenants, especially in those instances where tenants do not have a social security number.

DOF Response: “We will review our procedures for the few applicants who file income documentation without an SSN and consider whether additional procedures should be put in place for this population.”

Other Weaknesses

Inadequate Maintenance of Files

DOF has no central record system to manage files containing original documents processed. After rent-stabilized applications are processed in SCRIE, they are maintained on a temporary basis at DOF for a period of three to six months. The applications, as well as the supporting documents, are often sent to storage at the DOF warehouse. However, DOF does not maintain any logs to specify in which boxes the documents are filed. With its current filing system, neither we nor DOF have any way of knowing where an application is filed or whether it has been removed, misfiled, or lost. The ability to locate the supporting documents becomes essential if DOF, the tenants, or landlords have questions or disputes regarding information entered into SCRIE. Although data from the applications is entered into DOF’s computer data base, the supporting documents are not scanned into the computer.

During the course of our audit, we asked to review all the supporting documents pertaining to our sample of 276 files to verify the information entered into the database. However, after five weeks, DOF officials admitted that they were not able to locate six entire files and two applications⁹. As such, we have no way of verifying whether information associated with these eight applicants was processed correctly.

Accounts of Former Employees Not Deactivated in a Timely Manner

During our period of review, DOF failed to deactivate all user accounts for those staff no longer working with the SCRIE program. Comptroller’s Directive #18 states that “access authorization must be carefully designed to insure that employees have access only to files or programs that are necessary for their job function. . .” The directive also requires “deactivation of inactive user accounts and accounts for employees whose services have terminated.” However, we found that as of November 30, 2010, a total of 54 individuals who were no longer involved with the SCRIE program still had access to SCRIE– 25 of whom were DFTA users and 29 of whom were DOF users. Subsequent to our initial review, DOF disabled from the system the user names pertaining to these 54 individuals.

SCRIE contains sensitive and confidential information, such as birth dates and social security numbers, making the deactivation of accounts for former employees or those not

⁹ We requested one of the two applications February 2011, and six months later, DOF officials were still not able to locate it.

associated with SCRIE even more crucial. The threat of identity theft by unauthorized individuals can be limited by deactivating system accounts in a timely manner and by reviewing audit trails on a regular basis.

Recommendations

DOF should:

6. Create a central log listing all applications filed and improve its filing system to ensure all applications and supporting documents are easily retrievable and secure.

DOF Response: “We are going to change our current filing archive system to include each application number housed in a file box. The application numbers will be added to our existing file log.”

7. Periodically review activity on the computer system to detect unauthorized use and promptly deactivate accounts on SCRIE for those who are no longer associated with the program.

DOF Response: “We disagree with the Comptroller that a procedure is necessary to disable former DOF employees from access to the SCRIE application since DOF has an existing process where employees who leave the agency have their access to all of Finance’s computer systems automatically terminated. For DOF employees that transfer within the agency, we have updated our process to review SCRIE access codes on a quarterly basis.”

Auditor Comment: Although former employees may no longer be able to access DOF’s computer systems, we nevertheless found that their SCRIE user accounts had not been deactivated. As a result, there is still a risk that current staff members with SCRIE access can make unauthorized changes in the system under the user accounts of former employees. As such, we urge DOF to implement this recommendation.

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 primary scope of this audit was TACs issued from July 1, 2009, to November 30, 2010. We extended the scope for our sample of deceased tenants to include TACs issued and recouped since the time of their death through June 30, 2011.

To gain an understanding of how DOF manages the SCRIE program, we conducted walk-throughs and interviews with DOF management and staff. We interviewed DOF's Director of Operations, Assistant Commissioner of Payment Operations, the SCRIE Processing Manager and Supervisor, as well as the Information Technology Project Manager. To obtain an understanding of the workflow from how applications are processed to how TACs are applied to building owners' accounts, we met with the SCRIE Intake staff, SCRIE Application Processing staff, and Financial Information Technology (FIT) staff¹⁰. We also attended training sessions offered to the SCRIE Application Processing staff.

To identify security measures for the SCRIE computer data, we met with DOF's Chief of Security/Assistant Commissioner and staff from its Office of Information Technology. We requested a computer-generated security table showing users with access to SCRIE as of November 30, 2010. We verified whether individuals who no longer should have had access to SCRIE were removed from the system and whether there were users with multiple accounts. A week later, we obtained a second computer-generated security table to determine whether accounts had been appropriately updated.

To assess the adequacy of DOF's internal controls as they relate to our audit objective, we evaluated information obtained from DOF's website, interviews, and various supporting documents. In the absence of written internal policies and procedures for SCRIE, we used the following sources as audit criteria:

- Legislation Text Local Law, New York City Council- File #: Int. 1026-2009 Version
- State Law-Real Property Tax Section 467-b
- Amendment to 2005 Local Laws of the City of New York, Int. No. 667A. Local Law No. 76
- 2010 DOF SCRIE Application Forms and instructions for New Applicants and Renewals
- DOF's list of documents required for processing SCRIE applications
- DOF Checklist Letter for Incomplete SCRIE applications
- Comptroller's Directive #1, "Internal Controls," and
- Comptroller's Directive #18, "Protection & Control of Agency Information."

¹⁰ FIT staff is charged with TACs posting and transference from SCRIE as well as with the application of TACs to owners' accounts on FAIRTax.

To determine the total amount of TACs issued to landlords during our 17-month scope period (July 1, 2009, through November 30, 2010), we reviewed an electronic database of all TACs posted as of November 30, 2010, and found that DOF issued \$171.2 million in TACs on behalf of 47,282 tenants. During this period, DOF also recouped \$8.9 million in previously issued TACs.

As a result of SCRIE's transition from DFTA to DOF, we were not able to test the completeness of the database, which was initially maintained and administered by DFTA, an agency not subject to this audit. The tests conducted during the course of our audit did not focus on DFTA's procedures in managing its database. Consequently, we cannot ascertain whether DOF received a database of all transactions processed by DFTA and, therefore, that the database we audited is complete. However, this has no negative impact on our findings, which are supported with sufficient appropriate evidence, because it is probable that any lack of completeness would result in no additional findings.

To determine whether information was accurately entered into the database, we judgmentally selected from our population of 47,282 tenants a sample of 25 initial applications that had been processed by DOF from July 2010 through October 2010. We matched the following information from the applications and supporting documents to the database: tenant's name, household members, landlord's name, lease period, monthly rent, and apartment address. We also verified whether each application was signed and whether it was accompanied with a lease signed by landlord and tenant.

We also attempted to determine whether there were supporting documents for age and income. However, prior to November 2010, DOF did not enforce its policy regarding the requirement of proof of age and income and most of the initial applications reviewed lacked supporting documents in this area. As a result, we expanded our sample and extended our scope to judgmentally select an additional 25 initial applications processed by DOF after the period of November 2010¹¹. For each of these 25 applications, we determined whether proof of age and income was, in fact, provided and compared it to the information entered into its database.

To identify and test those individuals who may have been the earliest recipients of SCRIE benefits and thus DOF paid the greatest amounts of TACs on their behalf, we judgmentally selected from our population of 47,282 tenants, all applicants whose birth dates were on or before 1910, indicating that they were 100 years or older. We selected all 62 applications (45 rent-controlled and 17 rent-stabilized) that were processed by DOF and attempted to verify the accuracy of the data entered into SCRIE by comparing it to the original documents. However, all but two of the 45 rent-controlled applications were renewals that had no supporting documents to test except for the SCRIE-generated renewal applications signed by the tenants (leases are not required for rent-controlled renewals). For the two initial rent-controlled applications as well as the 17 rent-stabilized renewals, we matched the information in the leases against the information in the SCRIE database.

In addition, to determine whether DOF reviewed mail that was returned as undeliverable and the impact that it had on TACs, we randomly selected one of seven bins containing approximately 500 envelopes that were returned to DOF. We judgmentally selected every tenth envelope from the bin and selected 46 tenants. For each of these tenants, we determined whether the

¹¹ We reviewed initial applications that had been processed in March 2011.

address on the envelope matched the address in the SCRIE account. We also judgmentally reviewed the processing of SCRIE benefits for 20 additional tenants for whom we received complaints.

To determine whether DOF issued SCRIE benefits on behalf of deceased tenants, we compared the primary social security number on file for the 47,282 tenants who received SCRIE benefits between July 1, 2009, and November 30, 2010, against a listing of death records from the Social Security Death Index (as of March 2011). We identified 3,801 tenants who were reported as deceased as of January 2000 and had TACs issued on their behalf. We selected to test 102 of the deceased tenants¹². Furthermore, as illustrated in the table below, for each of the earlier sample selections, we ascertained whether DOF issued benefits on behalf of eligible tenants. In doing so, we identified additional deceased tenants for a total of 146 deceased tenants.

Table I
Sample Selection

Type of Test	# Selected for Testing Purposes	# of Deceased Tenants Identified
Initial Applications Processed during July 2010 - October 2010	25	-
Initial Applications Processed After November 2010	25	-
Tenants 100 years or Older	62	23
Returned Mail	46	18
Complaints Received	20	7
Match of Population against Social Security Death Index	102	102
<i>Less Duplicates</i>	<i>(4)</i>	<i>(4)</i>
Total	276	146*

*141 of the 146 tenants were part of the 3,801 tenants reported as deceased as of January 2000. Five tenants died between 1966 and 1982 and were identified as deceased through RootsWeb.com.

For each of the 146 deceased tenants identified in the above sample selection process, we determined whether the correct account status and date of death was entered into SCRIE. In addition, we determined whether the deceased tenants had other household members who would be eligible to receive SCRIE benefits, and, if so, whether DOF performed a correct benefit transfer. For those deceased tenants who had no other eligible household members, we verified whether DOF had ceased TACs and recouped the appropriate amounts.

¹² We selected the 102 tenants in our sample through three methods: a) randomly selected 25 tenants; b) sorted the population by the greatest dollar amounts of TACs and selected the 25 tenants who received \$15,500 or more in benefits; and c) sorted the population by the length of time deceased and randomly selected 52 tenants who were deceased for two years or more.



David M. Frankel
Commissioner

September 8, 2011

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**Re: Audit Report on the Department of Finance's Administration of
the Senior Citizen Rent Increase Exemption Program (MG11-053A)**

Dear Deputy Comptroller Kim:

Introduction

We appreciate the Comptroller's audit finding regarding improving controls to ensure Senior Citizen Rent Increase Exemption (SCRIE) benefits are revoked on the death of the tenant.

The administration of the SCRIE program was transferred from the Department of the Aging (DFTA) to the Department of Finance (DOF) in September of 2009. DOF Commissioner Frankel has publicly stated that the agency did not prepare properly before the transfer and a large backlog of SCRIE applications developed.

DOF dedicated resources to identifying and fixing the problems with processing SCRIE applications. This required a review of the entire SCRIE operation, including policy, legislation, process and procedures to identify improvements in the administration of the program, while ensuring that seniors and landlords received proper benefits in compliance with the law. The review process resulted in very large changes being implemented commencing in 2010 and continuing through the present. These changes include a successful effort to remove the backlog of applications, an overhauled application, outreach to elected officials, creation of updated guides, enhancing age and income documentation requirements, appointment of a new SCRIE supervisor and a reorganization of staffing.

The SCRIE program historically has revoked benefits upon notification by landlord, tenants or relatives that a SCRIE tenant has moved or that a benefit recipient has died. This is consistent with the law governing SCRIE which specifically requires the landlord to notify the DOF within 30 days of the SCRIE beneficiary's termination of occupancy. As the audit



notes, the city may recoup SCRIE tax credits given to a landlord at any time once we receive notice that a tenant's eligibility ended.

Our goal is to not only ensure every application or piece of mail is methodically and uniformly reviewed for accuracy in timely manner, but that every benefit granted is warranted, which includes providing benefits only during the lifespan of a qualifying tenant. We agree with the Comptroller's audit finding that DOF can institute stronger controls to ensure that SCRIE benefits are revoked timely and uniformly upon the death of a SCRIE recipient.

Controls to Ensure the Proper Issuance of Tax Abatement Credits

Data Matching

DOF is instituting a match of all our active SCRIE recipients to the Social Security Administration's Death Master File (DMF) every month. We will match on Social Security numbers. If no SCRIE eligible tenant remains in the apartment, the SCRIE abatement will be revoked the month following the date of death.

The latest version of the DMF will be shipped to DOF on September 14, 2011. Upon receipt it will include all deaths reported from 1936 through August 31, 2011. We have also purchased monthly updates that we will use to amend our file every month so our data set is always up-to-date.

A notice will be generated for the landlord and the tenant if we revoke based on a DMF match. We will continue to send the notice to the tenant in case of an error in the revocation, or in case there is a remaining tenant living in the apartment who qualifies for a benefit transfer. However, a benefit transfer must be requested via a formal application process.

Accuracy of a Social Security Number

A data match is only successful if the data used to match is accurate. Initial applicants are required to submit income documentation to support their application, and to prove the combined household income is \$29,000 or less. The majority of the income documents we accept: Personal Income Tax Returns, Social Security Income Award Letters, 1099s and W2s, have printed social security numbers (SSN) on them. Staff verify that the SSN handwritten on the application matches the SSN printed on the supporting income document. We will review our procedures for the few applicants who file income documentation without an SSN and consider whether additional procedures should be put in place for this population.

We disagree with the Comptroller's suggestion that we require applicants to appear in person to apply or renew applications in order to avoid possible fraudulent applications. It is not realistic nor



practical to require our City's elderly to travel to DOF offices to submit documentation they can easily submit via mail.

Accurate Benefit Takeovers

We have updated our procedures to ensure that DOF transfers the SCRIE benefit to eligible household members where appropriate. Our revised procedures require that a surviving household member who believes s/he is eligible for a benefit takeover must apply for SCRIE. The revocation notice sent to the tenant's address has been amended to point the surviving household member to apply for a benefit takeover, and we have created an application for benefit takeover that can be downloaded from our website. This application procedure will ensure that we have the accurate SSN and income documentation for the benefit takeover applicant and the SCRIE database is updated correctly.

In addition, we will be amending all renewal notices to remind tenants of this policy.

SCRIE Accounts of Former Employees

We disagree with the Comptroller that a procedure is necessary to disable former DOF employees from access to the SCRIE application since DOF has an existing process where employees who leave the agency have their access to all of Finance's computer systems automatically terminated. For DOF employees who transfer within the agency, we have updated our process to review SCRIE access codes on a quarterly basis.

Benefits on behalf of 3,801 deceased tenants

To ensure that all our records are accurate, we requested several different data sets referenced in the audit report. We researched the list of the 79 tenants cited in the report who died without any eligible household member. We have nearly completed researching the entire master list of the 3,801 that the auditors found as deceased when matched with the SSA DMF data.

We found that the Comptroller over-stated the number of deceased tenants who had not been reported to DOF and the dollar value of SCRIE abatement credits that will be recouped as property tax charges. We agree with the Comptroller that in many instances where the original SCRIE beneficiary has passed away, a SCRIE eligible householder still lives in the apartment, although an application must be submitted for that person.

Where a landlord received SCRIE Tax Abatement Credits (TAC) after a tenant's death, we will send a revocation notice to the landlord and the current residents of the household. If the current residents are SCRIE eligible, we will transfer the SCRIE beneficiary in our system upon review of the requisite documentation. If the current residents are not SCRIE eligible, we will recoup all unwarranted TACs as a real property tax charge.



Results to-date of our research:

79 tenants cited in the report who died without any eligible household member

- All 79 tenants have been researched
- All 79 tenants have been revoked from the SCRJE program and their tenant status has been changed to DEATH (versus ACTIVE OR INACTIVE).
- We confirmed revocation of all 79 tenants' benefits ended with the month following the date of death.
 - 11 tenants had already been revoked prior to the issuance of the audit. The amount of TAC that was debited from the landlord totaled \$99,995.65
 - 68 tenants were revoked after the issuance of the audit, and the TAC that was debited from the landlord totaled \$406,309.92

A TAC debit will be shown as a property tax charge on the landlord's real property tax bill.

3,801 cited in the report as deceased

- All 3,801 tenants have been reviewed and to-date 3,214 (of the 3,801) tenants have been revoked. 2,988 required a TAC debit. The TAC debit will appear as a property tax charge (if no remaining householder is SCRJE eligible) for the 2,988 tenants is \$9,962,247.43
- An additional 198 tenants will not be revoked because a benefit transfer has occurred or a SSN was found to be incorrect, and was subsequently corrected.
 - Our research shows that 38% of these 3,801 had been revoked prior to the issuance of the preliminary draft audit report. As noted earlier, the SCRJE unit regularly receives notice when a tenant dies or moves.
 - 223 of these tenants were revoked prior to the date of death, when DOF was notified that the tenant had moved. The amount of benefit removed from these tenants totaled \$598,889.99
 - 1,236 tenants were revoked when DOF was notified about the tenant passing away and prior to receipt of the Comptroller's report and data. The sum of the recovery of SCRJE benefit for this population is \$3,934,286.22.

Policy & Procedure Manuals

We agree that Policy and Procedure manuals are critical documents for any operation. A new supervisor was put at the helm of SCRJE in December and a new Assistant Commissioner was hired to oversee all exemption and abatements in January. Since then, the two have been working on a review of all processes and procedures with the aim to create Standard Operating Procedure (SOPs) documents.



Several comprehensive final documents have recently been completed. There are five documents to date. We will be adding more in the upcoming months and regularly reviewing these documents going forward. Staff feedback has been incorporated into the creation of these documents and staff are being trained on the final versions.

- **Initial Application SOP**
 - This document describes the step-by-step process to review and verify an initial SCRIE application, its supporting documents and all household members' SSNs.
- **Renewal Application SOP**
 - This document describes the step-by-step process to review and verify a renewal SCRIE application, its supporting documents and all household members' SSNs.
- **Returned Mail SOP**
 - This document describes the step-by-step process to review all returned mail.
- **Revocation of benefits**
 - This document describes the step-by-step process of revoking a tenant's benefit from the SCRIE program.
- **Quality Control**
 - This document describes a process whereby the Unit's supervisor will randomly review staff's work on an ongoing basis.

Record Retention and File Maintenance

We are going to change our current filing archive system to include each application number housed in a file box. The application numbers will be added to our existing file log.

Sincerely,

A handwritten signature in black ink, appearing to read "Elizabeth Botwin", written in a cursive style.

Elizabeth Botwin

C: George Davis III, Deputy Director, Mayor's Office of Operations
Sara Meyers, Assistant Commissioner, Tax and Parking Program Operations
Celia Carino, Director, Internal Audit