



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



AUDITS AND SPECIAL REPORTS

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the New York City
Department of Finance's Administration
of the Veterans' Exemption Programs

SR16-119A

May 26, 2017

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THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

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To the Residents of the City of New York:

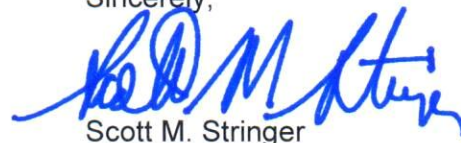
My office has audited the New York City Department of Finance (DOF) to determine whether DOF ensures that property owners receiving a Veterans' Exemption meet the eligibility requirements of the program. We audit City agencies such as DOF as a means of increasing accountability and ensuring that the City effectively and accurately assesses and receives funds it is due.

The audit found that DOF improperly credited Veterans' Exemptions to 1,503 properties, resulting in a loss to the City of at least \$3,770,350 in forgone property tax revenue. Because some of the properties also improperly received exemptions for a second program, the School Tax Relief Program (STAR), the total loss grew to approximately \$4,220,108 in the last six fiscal years.

Based on the audit findings, we made 18 recommendations, including that DOF should recover the \$1,654,869 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the properties were transferred to new, presumptively-ineligible owners as well as the \$798,346 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the qualifying homeowners died. DOF should also verify whether homeowners eligible for STAR exemptions are deceased as reported by the Social Security Administration and this audit report, and determine whether the current property owners are eligible for the exemption. Where the current owners are determined to be ineligible, DOF should remove the STAR exemptions from applicable properties retroactively to the date of the eligible homeowner's death and recover the \$368,146 in unwarranted tax reductions. Additionally, DOF should recover any and all of the \$1,804,979 in questionable tax reductions on 456 cooperative units and 115 other properties that resulted from any improper continuation of Veterans' Exemptions after the qualifying veterans died, where DOF determines that there are no other qualified recipients; recover the \$915,173 in unwarranted tax reductions that were improperly granted to properties containing four or more units; recover the \$246,831 in unwarranted tax reductions based on the improper application of Veterans' Exemptions and STAR exemptions to properties owned by corporations or LLCs; and recover the \$236,743 in unwarranted tax reductions that resulted from the incorrect application of multiple Veterans' Exemptions to individual owners.

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,



Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER AUDITS AND SPECIAL REPORTS

Audit Report on the New York City Department of Finance's Administration of the Veterans' Exemption Programs

SR16-119A

EXECUTIVE SUMMARY

This audit of the New York City Department of Finance (DOF) concerns its administration of tax benefits granted to property owners under the Veterans' Exemption Programs, which provide a partial property tax exemption for veterans, the spouse or widow/widower of a veteran who has not remarried, or parents of a soldier killed in action. The Veterans' Exemption appears as a reduction of the assessed value of the property, which is used to determine the property tax.

Two categories of Veterans' Exemptions are in effect in New York City: (1) the Eligible Funds Exemption, which was issued to eligible homeowners prior to 1984; and (2) the Alternative Veterans' Exemption, which has been in effect since 1984. The Eligible Funds Exemption, originally enacted in 1897, is codified in New York State Real Property Tax Law (RPTL) Section 458. The Alternative Veterans' Exemption is codified in RPTL Section 458-a. Both exemptions require proof of ownership. The Alternative Veterans' Exemption has a primary residence requirement that is not required for the earlier enacted Eligible Funds Exemption.

Audit Findings and Conclusion

DOF improperly credited Veterans' Exemptions to 1,503 properties, which resulted in a loss to the City of at least \$3,770,350 in forgone property tax revenue.

- DOF failed to remove Veterans' Exemptions from 740 ineligible properties that were transferred to owners who were not authorized recipients of the exemptions, which resulted in the loss of at least \$1,654,869.
- DOF failed to remove Veterans' Exemptions from at least 341 properties after the eligible homeowners died, which resulted in the loss of at least \$798,346.
- DOF also failed to correctly prorate the Veterans' Exemptions for 200 properties that contain four or more units, which resulted in the loss of at least \$915,173.

- DOF allowed at least 60 properties owned by ineligible corporations or limited liability companies (LLCs) to receive inappropriate Veterans' Exemptions, which resulted in the loss of at least \$165,219.
- DOF allowed 162 homeowners to receive multiple Veterans' Exemptions simultaneously, which is not allowed and resulted in the loss of \$236,743.
- DOF inappropriately approved (School Tax Relief Program) STAR exemptions for properties of deceased homeowners and ineligible corporations and LLCs, which resulted in the loss of \$449,758. Thus, this audit identified \$4,220,108 in lost tax revenue.

In addition, we question whether it was appropriate for DOF to apply Veterans' Exemptions and resulting tax reductions totaling \$1,804,979 to 456 cooperative properties and 115 other properties after the eligible veteran's death where no other eligible owner was identified in DOF's records. In those cases, no deeds or other secondary documents were available in DOF's records that could be reviewed to determine whether the subsequent owners of the property were eligible for the continuing exemptions.

Audit Recommendations

Based on the audit findings, we make the following 18 recommendations:

1. Remove Veterans' Exemptions from properties that were transferred from eligible to ineligible owners, retroactive to the date of transfer.
2. Implement adequate controls to remove Veterans' Exemptions retroactive to the date of transfer when properties are transferred to new owners who do not demonstrate eligibility in response to DOF's notification letters.
3. Recover the \$1,654,869 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the properties were transferred to new, presumptively-ineligible owners.
4. Verify whether homeowners eligible for Veterans' Exemptions are deceased as reported by the Social Security Administration (SSA) and this audit report, and determine whether the current property owners are eligible for the exemption as qualified recipients. Where the current owners are determined to be ineligible, remove the Veterans' Exemptions from applicable properties retroactively to the date of the eligible homeowner's death.
5. Implement adequate controls to remove the exemptions from properties whose eligible owners are deceased, retroactive to the date of death.
6. Recover the \$798,346 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the qualifying homeowners died.
7. Verify whether homeowners eligible for STAR exemptions are deceased as reported by the SSA and this audit report, and determine whether the current property owners are eligible for the exemption. Where the current owners are determined to be ineligible, remove the STAR exemptions from applicable properties retroactively to the date of the eligible homeowner's death and recover the \$368,146 in unwarranted tax reductions.
8. Investigate whether the 456 cooperative units and 115 other properties that have continued to receive Veterans' Exemptions following the death of the eligible veteran-homeowner are currently owned by eligible individuals.

9. Recover any and all of the \$1,804,979 in questionable tax reductions on 456 cooperative units and 115 other properties that resulted from any improper continuation of Veterans' Exemptions after the qualifying veterans died, where DOF determines that there are no other qualified recipients.
10. Appropriately prorate the exemption calculations on properties with four or more units that resulted from the failure to properly calculate and limit such exemptions to the eligible owner's primary residence.
11. Implement adequate controls to ensure that Veterans' Exemptions claimed for properties containing four or more units are prorated and limited to the owner's primary residence unit.
12. Recover the \$915,173 in unwarranted tax reductions that were improperly granted to properties containing four or more units.
13. Remove the unwarranted Veterans' Exemptions from properties that, according to deeds recorded in DOF's Automated City Register Information System (ACRIS), are owned by either corporations or LLCs.
14. Implement adequate controls to prevent a property owned by a corporation or LLC from receiving the exemption.
15. Recover the \$246,831 in unwarranted tax reductions based on the improper application of Veterans' Exemptions and STAR exemptions to properties owned by corporations or LLCs.
16. Verify ownership of 162 properties that DOF records show are improperly receiving compounded or multiple Veterans' Exemptions and remove all improperly applied exemptions.
17. Recover the \$236,743 in unwarranted tax reductions that resulted from the incorrect application of multiple Veterans' Exemptions to individual owners.
18. Modify the Real Property Assessment Data system to contain computer edit checks that will automatically:
 - a. Reject the Veterans' Exemptions for properties that are owned by corporations and LLCs;
 - b. Prorate the Veterans' Exemptions for properties that contain more than four units; and
 - c. Reject multiple Veterans' Exemptions for any property owned by an individual veteran or other eligible owner. List the full names of all veterans receiving the Veterans' Exemption for each property.

Agency Response

In its audit response, DOF agreed with most of the audit recommendations and indicated that it would address the issues raised. DOF acknowledged that for more than a decade it failed to remove the Veterans' Exemptions from properties that were no longer owned by eligible veterans who may have sold the properties or died, and that it did not regularly determine whether the properties receiving Veterans' Exemptions remained eligible for them. DOF's response thus confirms what is detailed in this report—that DOF has inappropriately allowed Veterans' and STAR Exemptions to continue without review for years resulting in the City's losing millions of dollars in forgone property tax revenue to ineligible owners. However, DOF stated that it would not

retroactively remove exemptions from ineligible properties because “owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those *potentially* ‘innocent’ owners.” (Emphasis added.) Thus, DOF has determined that it will not seek to recover much of the revenue that it acknowledges has been lost.

AUDIT REPORT

Background

DOF administers the City's tax and revenue laws and is responsible for, among other things, assessing and collecting real property taxes. In connection with those responsibilities, DOF administers real property tax exemptions for qualifying veterans and their eligible family members who own residential property in New York City.¹

The Veterans' Exemption appears in a tax statement as a reduction in a property's assessed value, which in turn determines how much property tax an owner must pay. As of Fiscal Year 2016, the owners of 77,390 properties in New York City benefited from Veterans' Exemptions, which resulted in a total reduction of \$368.1 million in taxable property values.

Two categories of Veterans' Exemptions are in effect in New York City: (1) the Eligible Funds Exemption, which was issued to eligible homeowners prior to 1984; and (2) the Alternative Veterans' Exemption, which has been in effect since 1984. These two exemptions are each described below.

The Eligible Funds Exemption reduces, by up to \$7,500, the assessed value of a property that a veteran purchased with "eligible funds" upon discharge from active duty.² Veterans' pensions, bonuses, insurance monies and compensation paid to prisoners of war are examples of eligible funds. The exemption was available before 1984 to (1) persons who rendered military or naval service to the United States at any time; (2) individuals who served in the U.S. Merchant Marine during World War II; and (3) those who served in a civilian capacity during World War II, either overseas in the American Field Service, or as a flight crew or aviation ground support employee of Pan American Airlines under its contract with the Air Transport Command.

The Alternative Veterans' Exemption has, since 1984, reduced by 15 percent the assessed value of a residential property owned by a veteran who served during a specified period of conflict or by an eligible family member of such veteran or deceased military service member.³ An additional 10 percent reduction is applied if the veteran served in a combat zone. If the veteran received a service-connected disability compensation rating from the Veterans' Administration or the U.S. Department of Defense, the assessed value of the property is further reduced by up to 50 percent of the veteran's disability rating.⁴ For example, a military service member who died in the service from a service-connected disability is deemed to have a disability rating of 100 percent. Accordingly, the maximum allowable assessment-reduction under the Alternative Veterans' Exemption is 75 percent, which would consist of 15 percent for service during a conflict, plus 10

¹ A veteran's eligible family members means one of the following: a spouse or un-remarried surviving spouse, or a Gold Star parent (parent of a service member who died in line of duty) who own residential property in New York City. According to DOF, if both the veteran and his or her spouse are deceased, the exemption can be continued for the veteran's dependent father, mother, or children under 21 years of age who have legally "received the property."

² The maximum reduction in the assessed value under the Eligible Funds Exemption increased from \$5,000 to \$7,500 as of July 1, 2015.

³ The specified periods of conflict that the veteran must have served to qualify for the Alternative Veterans' Exemption are the Persian Gulf Conflict, which includes the Afghanistan and Iraq Conflicts, the Vietnam War, the Korean War, World War II, and World War I. Combat zone refers to locations of active combat, such as Vietnam during the Vietnam War.

⁴ Disability compensation is a monetary benefit paid to veterans who are determined by the U.S. Department of Veterans Affairs to be disabled by an injury or illness that was incurred or aggravated during active military service. These disabilities are considered to be service connected.

percent for serving in a combat zone, and, if the service member died while in service from a service-connected disability, an additional 50 percent of his or her disability compensation rating.

The Eligible Funds Exemption, originally enacted in 1897, is codified in RPTL Section 458. The Alternative Veterans' Exemption is codified in RPTL Section 458-a. Both exemptions require proof of ownership. The Alternative Veterans' Exemption also has a primary residence requirement, which is not required for the Eligible Funds Exemption.

Properties owned in the name of a corporation, partnership or LLC are not eligible for either the Eligible Funds Exemption or the Alternative Veterans' Exemption, according to opinions issued by the New York State Board of Equalization and Assessment (SBEA) and the New York State Board of Real Property Services (SBRPS) in 1972 and 2000.⁵ In addition, the SBEA in 1990 issued an opinion stating that the Alternative Veterans' Exemption for a property with four or more units must be prorated to the unit being utilized as the owner's primary residence. However, the SBEA ruled that the entire structure of a property with three or fewer units would qualify for the exemption.⁶

DOF requires applicants for the Veterans' Exemption to complete an application attaching documentation of the veteran's service. There is no requirement to reapply once an exemption has been granted. Homeowners who receive a Veterans' Exemption can also apply for and receive a STAR exemption based on their income and homeowner status.

In addition, DOF's *Homeowner Tax Benefits Removal Policy* for all exemptions states (with emphasis in the original):

Homeowner tax benefits shall be removed **prospectively** in the following situations:

- **Renewal** - Upon renewal, DOF determines the household is not eligible for benefits and has not been eligible for benefits that the household received.
- **Transfers** - Upon transfer, DOF determines the household has not been eligible for benefits it received.
- **Death of homeowner/exemption recipient** - When the Social Security Administration is notified that a person is deceased, and the Death Master File is updated, DOF will remove benefits from the date of death.
- **Notification** - Upon request for review by the Property Division, other divisions within DOF or other City agencies, DOF determines that the household is not eligible for benefits.
- **Tips** - Upon request for review by a member of the public, such as a neighbor, DOF determines that the household is not eligible for benefits.

The Compliance Unit of DOF's Property Division is responsible for ensuring that new applications for all categories of exemptions are processed correctly. The Unit also ensures that benefits are removed upon a determination that the household is no longer eligible—due to a property's transfer or death of the recipient—and that adjustments made by the Tax Commission are instituted correctly. In addition, DOF provides an application that a property owner may complete to request that a previously granted exemption be removed.

⁵ NYS Volume 1 – Opinions of Counsel SBEA No. 54, No.76, and NYS Volume 10 – Opinions of Counsel SBRPS No. 9.7.

⁶ NYS Volume 9 – Opinions of Counsel SBEA No. 35.

DOF informed us that since the end of 2013 it periodically receives deed-match reports identifying properties currently receiving homeowner tax benefits that have been transferred to new owners. DOF further informed us that in December 2014 the Compliance Unit began to check SSA death records to identify homeowners receiving exemptions who had died during the preceding month.

To follow up on information it receives through its deed- and death-matches, the Compliance Unit informed us that it sends notification letters to the homes to verify the information obtained through each match and to inform the homeowner that for the exemptions and benefits to continue the homeowner must submit a letter indicating their status (veteran, un-remarried surviving spouse, Gold star parent, dependent parent or child under the age of 21), otherwise the Veterans' Exemption will be removed. If it receives no response to such a notification letter, the Compliance Unit asks DOF's Finance Information Technology Unit to remove the exemption. As described by DOF, the agency's reviews of SSA death records began in December 2014 and cover only deaths that occurred in the preceding month. DOF does not check cumulative SSA death-records to determine whether any individuals currently named as recipients of Veterans' and other exemptions may have died prior to December 2014.

Objective

The objective of this audit was to determine whether DOF ensures that property owners receiving a Veterans' 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 property owners who were receiving a Veterans' Exemption as of July 1, 2016. We expanded our scope to calculate the extent and financial effect of owners who may have improperly received exemptions granted as of July 1, 2011, 2012, 2013, 2014, and 2015. 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 findings 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 April 4, 2017 and discussed at an exit conference held on April 19, 2017. On May 2, 2017, we submitted a draft report to DOF officials with a request for comments.

We received a written response from DOF on May 17, 2017. In that response, DOF generally acknowledged the audit's findings, agreed with most of the recommendations, and indicated that it would address the issues identified. DOF stated, "after a period of more than a decade when DOF did not require eligibility recertifications from tax benefit recipients, DOF has been actively engaged over the past year in updating its data and records to ensure the accuracy of all personal

exemptions programs and has been establishing controls for prospective monitoring of eligibility. . . . we have been proactively contacting households since last fall about eligibility issues [and] reviewing information about program beneficiaries to ensure eligibility. . . . DOF has and will revoke tax benefits prospectively when a beneficiary is found to be ineligible, and retroactively as well when fraud is detected. Ineligible properties owned by LLCs or corporations and ineligible properties receiving School Tax Relief (STAR) . . . are also subject to retroactive recovery of benefits.” DOF also stated that it is now effectively engaged . . . in updating its data and records when a beneficiary is found to be ineligible

DOF did not agree with the recommendations that it remove improper Veterans’ Exemptions retroactively, stating “[f]or more than a decade, DOF did not proactively remove the Veterans’ Exemption for properties with ownership changes, and new owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those *potentially* ‘innocent’ purchasers.” (Emphasis added.) Even taking possible “innocent” property owners into consideration, DOF’s decision to forgo *any* action to recover *any* of the taxes owed by ineligible owners does not address the fact that the City may have lost of over \$5 million in property tax revenue as a result of DOF’s failure to ensure that tax exemptions were allowed only to those eligible for them.

Although DOF stated in its response that it will address the report’s “specific inaccuracies and misunderstandings,” it, in fact, concurred that the majority of the 1,503 properties were incorrectly credited with the tax exemption. Specifically, DOF reported that only 97 (6 percent) of the 1,503 properties are eligible for the exemption, which suggests that 1,406 of the 1,503 properties were incorrectly credited with this tax exemption.⁷ Although not specifically stated in its response, we expect that once DOF completes its own review the exemptions will be removed or correctly prorated for the remaining 1,406 ineligible properties. In that regard, DOF stated that it is investigating those properties where the eligible veteran owner on record with DOF was deceased and no subsequent deed or other secondary document was available to determine whether the current owner qualifies for the exemption.

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

⁷ The 97 properties consist of four properties owned by corporations or LLCs and 93 properties that received multiple Veterans’ Exemptions. In its response, DOF stated that these properties received the appropriate Veterans’ Exemption. DOF did not provide any documentation to support its statement.

FINDINGS AND RECOMMENDATIONS

Auditors found that during the audit scope period, DOF improperly credited Veterans' Exemptions to 1,503 properties, resulting in a loss to the City of at least \$3,770,350 in forgone property tax revenue. When combined with improperly granted exemptions for a second program, the STAR exemption, the total loss grew to approximately \$4,220,108 in the last six fiscal years. Detailed findings are set forth in the audit report below.

DOF Failed to Remove Veterans' Exemptions from 740 Properties Transferred to Presumptively-Ineligible Owners, Resulting in \$1.6 Million in Lost Tax Revenue

The audit found that the agency allowed Veterans' Exemptions to remain in place for 740 properties that were transferred to presumptively ineligible owners and thereby caused the loss of \$1.6 million in property tax revenue to the City in the last six fiscal years. In the case of these 740 properties, DOF should have automatically removed Veterans' Exemptions from properties when they were transferred to new owners.

According to DOF, currently when a property receiving a Veterans' Exemption is sold, DOF's recording of the transferred deed in the City Register should result in the revocation of any pre-existing Veterans' Exemption on that property. To determine whether that procedure was followed, we compared DOF's two lists showing, respectively, the homeowners reportedly receiving Veterans' Exemptions and those receiving STAR benefits and identified those properties for which the two DOF lists reflected different owners. By examining the deeds for those properties, we found that Veterans' Exemptions inappropriately remained in place—under the names of prior property owners—for 740 properties that had been transferred to different owners.

In the last six fiscal years, those 740 properties received unwarranted tax reductions based on their prior owners' Veterans' Exemptions, which resulted in the loss of \$1,654,869 in forgone tax revenue.⁸ It should be noted that the vast majority—714—of the 740 properties were transferred to new owners prior to the end of 2013, which is when DOF began periodically receiving deed-match reports for properties receiving exemptions and other homeowner tax benefits, according to the agency. Prior to 2013, DOF relied on property owners to notify the agency when an exemption should be removed.

The following table shows by decade the number of properties that inappropriately retained Veterans' Exemptions after being transferred to new owners as of July 1, 2016.

⁸ If a homeowner transferred the property prior to July 1, 2011, the property would have received additional exemptions incorrectly, which were not included in the \$1.65 million we calculated.

Table I

Properties That Kept Exemptions after Transfer to New Owners

Decade	Number of Transferred Properties
1950-1959	2
1960-1969	26
1970-1979	117
1980-1989	66
1990-1999	68
2000-2009	311
2010-2016	150

DOF Failed to Remove Veterans' Exemptions from 341 Properties of Deceased Owners, Resulting in \$798,346 in Lost Tax Revenue

DOF failed to remove Veterans' Exemptions from at least 341 properties after the eligible homeowners died, resulting in lost tax revenue of at least \$798,346. In reaching this conclusion, we compared DOF's lists of property owners who received Veterans' Exemptions with SSA's death records and identified the properties that retained their exemptions after the deaths of the eligible owners. We then examined the most recent deeds for those properties recorded in DOF's ACRIS system to determine whether they may have been owned by a second party who could qualify as the deceased veteran's eligible survivors, such as a spouse or dependent child. We identified 341 properties that had no living owner on record, based on their deeds and other DOF records. In each of those cases, we found that although the owners on record were deceased, the Veterans' Exemption continued to be applied. In the last six fiscal years, those 341 properties received a total of 1,720 unwarranted tax reductions based on their deceased prior owners' Veterans' Exemptions, which resulted in the loss of \$798,346 in forgone tax revenue.⁹

Our review of DOF's quarterly tax bills for these 341 properties also found that 269 of them were incorrectly credited with 1,326 STAR exemptions in the last six fiscal years following the deaths of their eligible owners, which resulted in the loss of an additional \$756,076 in forgone tax revenue that the City should have assessed and collected. A prior audit by our office also found instances where ineligible deceased property owners received STAR exemptions to which they were not entitled.¹⁰ Some of these properties were also identified in this audit of Veterans' Exemptions. Accordingly, to avoid a double count of previously identified properties and tax revenue that was not received by the City, in this report we have identified forgone tax revenue only for the

⁹ If the homeowner died prior to July 1, 2011, the properties would have received additional exemptions incorrectly, which were not included in the \$798,346 we calculated.

¹⁰ *Audit Report on the Department of Finance's Administration of the Senior Citizen Homeowners' Exemption Program*, Audit Number SR16-087A issued in July 7, 2016. 122 of the 269 properties in this audit were also identified in the July 2016 audit. The 122 properties were improperly credited with \$387,930 in STAR exemptions; since the \$387,930 for the same period was already included in the prior audit, we are not including the \$387,930 in this audit.

properties newly identified by this audit, which amounts to \$368,146 of the \$756,076 in the total revenue lost.

By way of example, among those properties we identified as having improperly received both a Veterans' Exemption and STAR exemption was a 38-unit Brooklyn apartment building, where the owner died in 2011. No new owner was named thereafter in the deed or in DOF's records of the exemptions; instead, both exemptions have remained in place under the name of the deceased former owner, whose name also remained on the deed. As a result, the building's taxes have been assessed at a reduced level for each of the five fiscal years following the former owner's death, lowering the building's tax charges by a five-year total of \$21,457.¹¹

The following table shows by fiscal year the total number and dollar value of the Veterans' Exemptions that remained in place for the 341 properties with deceased owners.

Table II
Veterans' Exemptions Inappropriately Retained in Decedents' Names

<u>Fiscal Year</u>	<u>Number of Properties with Veterans' Exemptions Issued to Deceased Former Owners</u>	<u>Loss of Tax Revenue</u>
<u>Fiscal Year 2017</u>	341	\$173,636
<u>Fiscal Year 2016</u>	309	\$150,207
<u>Fiscal Year 2015</u>	293	\$143,720
<u>Fiscal Year 2014</u>	280	\$125,958
<u>Fiscal Year 2013</u>	263	\$109,743
<u>Fiscal Year 2012</u>	234	<u>\$95,082</u>
Total		\$798,346

In addition, we question Veterans' Exemptions that DOF allowed to continue for 456 cooperative properties and 115 other homes after their eligible owners died. In those cases, DOF did not identify another eligible beneficiary, and no deeds or other documents were available to determine whether another party might be eligible. In the absence of any evidence of other eligible beneficiaries, the auditors concluded that DOF has allowed those properties to accumulate unwarranted tax reductions totaling \$1,804,979 in the last six fiscal years.

DOF's Response: In its response, DOF stated that it has begun investigating the 456 cooperative properties and 115 other homes where the eligible owners had died and DOF did not identify another eligible beneficiary. For the 456 cooperative properties, DOF has "removed exemptions from 81 properties . . . allowed exemptions to continue on 92 properties" and are still investigating "the remaining

¹¹ The borough, block, and lot (BBL) number of that property is 3/6723/6.

283” properties. Regarding the 115 other properties, DOF “removed exemptions from 4 properties . . . allowed exemptions to continue on 50 properties” and are still reviewing “the remaining 61 properties.”

DOF Failed to Prorate Veterans’ Exemptions in Properties with Four or More Units, Forgoing \$915,173 in Lost Tax Revenue

DOF failed to prorate the Veterans’ Exemptions applied to 200 properties that contain four or more units to ensure that benefits are given only to the eligible owner’s primary residence, as prescribed by an SBEA opinion. In the absence of prorating, those properties received excessive Veterans’ Exemptions to which they were not entitled. We based this finding on our review of DOF’s quarterly tax bills, the notice of property value, and *Final Assessment Roll* for Fiscal Years 2012 through 2017.

We prorated the Veterans’ Exemption to the owner-occupied unit in each of the 200 identified properties, and calculated the correct reduction to which the property was entitled. The difference between the tax reductions based on DOF’s application of the exemptions to the entire property and the correct, prorated reductions applied to the 200 properties equals lost tax revenue of \$915,173 in the last six fiscal years.

For example, among the 200 identified properties, a 16-unit Brooklyn apartment building, BBL 3/6259/16, received Veterans’ Exemption-based tax reductions totaling \$22,262 in the last six fiscal years. Prorating the exemption to one of the 16 units would have limited the Veterans’ Exemption tax reduction to \$1,391 for the six years. DOF’s failure to prorate the exemption for this property resulted in under-billing and the loss to the City of \$20,871 in property tax revenue for this building.

Our review included properties in the following property classes:

Table III
Property Classes Reviewed

<u>DOF Property Class</u>	<u>DOF Property Characteristics</u>
C1	OVER SIX FAMILIES WITHOUT STORES
C2	FIVE TO SIX FAMILIES
C3	FOUR FAMILIES
C4	OLD LAW TENEMENT ¹²
C5	CONVERTED DWELLINGS OR ROOMING HOUSE
C7	WALK-UP APT. OVER SIX FAMILIES WITH STORES
S3	PRIMARILY 3 FAMILY WITH 1 STORE OR OFFICE
S4	PRIMARILY 4 FAMILY WITH 1 STORE OR OFFICE
S5	PRIMARILY 5-6 FAMILY WITH 1 STORE OR OFFICE
S9	SINGLE OR MULTIPLE DWELLING WITH STORES OR OFFICES

¹² DOF officials stated this property class is similar to a residential apartment building for assessment purposes.

The following table shows the total dollar amount of excessive exemptions granted to owners by fiscal year and property class.

Table IV
Dollar Value of Excessive Exemptions Granted to 4+ Unit Properties

	Property Class C1, C2 C3, and C7	Property Class C4 and C5	Property Class S3 and S9	Property Class S4 and S5	Total
<u>Fiscal Year</u> <u>2017</u>	\$161,217	\$8,865	\$4,704	\$2,444	\$177,230
<u>Fiscal Year</u> <u>2016</u>	\$149,718	\$8,194	\$4,476	\$2,278	\$164,666
<u>Fiscal Year</u> <u>2015</u>	\$148,087	\$8,233	\$4,533	\$2,330	\$163,183
<u>Fiscal Year</u> <u>2014</u>	\$130,573	\$7,465	\$4,139	\$2,171	\$144,348
<u>Fiscal Year</u> <u>2013</u>	\$119,756	\$7,415	\$3,792	\$1,999	\$132,962
<u>Fiscal Year</u> <u>2012</u>	\$119,273	\$7,548	\$4,014	\$1,949	\$132,784
<u>Total</u>	\$828,624	\$47,720	\$25,658	\$13,171	\$915,173

The following table shows the total number of excessive exemptions granted or continued for multi-unit properties in each of the last six fiscal years by property class.

Table V

Excessive Exemptions Granted or Continued for 4+ Unit Properties

	Property Class C1, C2 C3, and C7	Property Class C4 and C5	Property Class S3 and S9	Property Class S4 and S5	Total
<u>Fiscal Year 2017</u>	181	9	7	3	200
<u>Fiscal Year 2016</u>	181	9	7	3	200
<u>Fiscal Year 2015</u>	179	9	7	3	198
<u>Fiscal Year 2014</u>	176	9	7	3	195
<u>Fiscal Year 2013</u>	172	9	6	3	190
<u>Fiscal Year 2012</u>	168	9	6	3	186
<u>Total</u>	1,057	54	40	18	1,169

Properties Owned by Corporations or Limited Liability Companies Improperly Received Veterans' Exemptions from DOF, Resulting in \$165,219 in Lost Revenue

We identified 60 properties owned by corporations or LLCs that improperly received Veterans' Exemptions, based on a review of DOF's list of exemptions granted, quarterly tax bills, and Final Assessment Roll for Fiscal Years 2011 through 2017. Those 60 properties did not meet the Veterans' Exemption eligibility requirements because they were not owned by individuals, as required by the SBEA.¹³ In addition, DOF's Standard Operating Procedures for processing a Veterans' Exemption application states that the exemption cannot be granted to a business such as a corporation or LLC. The 60 properties we identified were owned by either a corporation or an LLC as of January 5, the taxable status date, of each fiscal year counted as an instance of an unwarranted tax reduction. We also ascertained the date that each property was purchased by an LLC or corporation, as recited on the property's latest deed registered in DOF's ACRIS. Based on all of the abovementioned information, we determined that the 60 properties had inappropriately received 338 tax reductions totaling \$165,219 since Fiscal Year 2011.

For example, a Manhattan apartment, BBL 1/1138/1369, owned by an LLC since September 10, 1998 according to its deed on file in ACRIS, inappropriately received Veterans' Exemption-based tax reductions totaling \$18,648 for the last six fiscal years. The following table shows the total number of properties and dollar value of Veterans' Exemptions incorrectly granted to ineligible corporate and LLC-owners in each fiscal year.

¹³ SBEA Volume 1 – Opinions of Counsel No. 54, No.76, and SBRPS Volume 10 – Opinions of Counsel No. 97.

Table VI

Veterans' Exemptions Allowed for Ineligible Companies

<u>Fiscal Year</u>	<u>Ineligible Company-owned Properties Receiving Veterans' Exemptions</u>	<u>Lost Tax Revenue</u>
<u>Fiscal Year 2017</u>	60	\$31,232
<u>Fiscal Year 2016</u>	60	\$29,747
<u>Fiscal Year 2015</u>	58	\$30,212
<u>Fiscal Year 2014</u>	53	\$25,038
<u>Fiscal Year 2013</u>	45	\$21,348
<u>Fiscal Year 2012</u>	35	\$15,946
<u>Fiscal Year 2011</u>	27	\$11,696
<u>Total</u>		<u>\$165,219</u>

In addition, 26 of the 60 company-owned properties that inappropriately received Veterans' Exemptions also received \$81,612 in improper STAR exemptions from Fiscal Years 2011 through 2017. A prior audit by our office also found instances—including some of the same instances identified in this audit—where ineligible corporations and LLCs received STAR exemptions to which they were not entitled.¹⁴

DOF Response: In its response, DOF stated that it "revoked benefits from 57 of the 61 properties identified in the audit report as being owned by an LLC or a corporation. The remaining four properties will continue to receive their exemption."

DOF Incorrectly Combined Veterans' Exemptions on 162 Properties, Resulting \$236,743 in Lost Tax Revenue

DOF incorrectly compounded and combined Veterans' Exemptions on 162 properties, resulting in the loss of \$236,743 in forgone tax revenue in the last six fiscal years through three separate types of errors. As described below, these combined exemptions are impermissible under applicable law.

First, we found that DOF incorrectly compounded assessment-reduction percentages based on the periods and locations in which veterans served. DOF's procedures state in effect that where a veteran served both (1) during a specified period of conflict and (2) in a combat zone, he or she

¹⁴ *Audit Report on the Department of Finance's Administration of the School Tax Relief Program*, Audit Number FM15-070A, issued June 17, 2015. Nine of the 27 properties identified in this audit were also identified in the June 2015 audit.

is entitled to receive, in total, a 25 percent reduction in the property's assessed value, consisting of 15 percent for service during a conflict and an additional 10 percent for combat-zone service. However, in 79 cases DOF incorrectly *added* the 25 percent combat-zone reduction to the 15 percent service-during-conflict reduction for a total reduction of 40 percent, rather than the prescribed 25 percent, resulting in \$103,424 in lost tax revenue in the last six fiscal years.

Second, DOF incorrectly applied two types of Veterans' Exemptions—the Eligible Funds Exemption and the Alternative Veterans Exemption—to 69 properties, resulting in the additional loss of \$109,364 in tax revenue. DOF informed us that the Eligible Funds Exemption and an Alternative Veterans' Exemption should not both be in effect on the same property, unless multiple veterans own that property. We determined that the 69 properties receiving both types of Veterans' Exemptions were each owned by one owner and therefore the property could not have been owned by multiple veterans, according to DOF's records, including its records of STAR exemptions, which identify all owners of such properties.

Lastly, DOF incorrectly applied either the disability exemption or the combat-zone service exemption more than once to 14 properties, resulting in the additional loss of \$23,955. Each of those 14 properties had only one eligible owner, according to DOF's records.

DOF Response: “DOF has investigated the properties identified in the audit report and removed either the old law or alternative exemption from 69 properties. These 69 properties were identified as receiving both benefits with only one eligible owner. The calculations for the remaining 93 properties have been confirmed to be accurate.”

Recommendations

DOF should:

1. Remove Veterans' Exemptions from properties that were transferred from eligible to ineligible owners, retroactively to the date of transfer.

DOF Response: "DOF has and will remove benefits from properties that were transferred from eligible to ineligible owners."

2. Implement adequate controls to remove Veterans' Exemptions retroactive to the date of transfer when properties are transferred to new owners who do not demonstrate eligibility in response to DOF's notification letters.

DOF Response: "DOF is in the process of implementing improved controls to remove Veterans' Exemptions from properties with ineligible new owners by developing a better system for reviewing and verifying sales and transfers of exempt property. In the interim, DOF is using the weekly Exempt Property Restored (EPR) report to review sales transfers, and remove benefits for new owners who are ineligible."

3. Recover the \$1,654,869 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the properties were transferred to new, presumptively-ineligible owners.

DOF Response: "For more than a decade, DOF did not proactively remove the Veterans' Exemption for properties with ownership changes, and new owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those potentially 'innocent' purchasers. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit."

Auditor Comment: As a result of DOF's failure for more than a decade to remove the Veterans' Exemptions for properties with ownership changes, the City has lost at least \$1,654,869 in forgone property tax revenue, which DOF chooses not to seek to recover.

4. Verify whether homeowners eligible for Veterans' Exemptions are deceased as reported by the SSA and this audit report, and determine whether the current property owners are eligible for the exemption as qualified recipients. Where the current owners are determined to be ineligible, remove the Veterans' Exemptions from applicable properties retroactively to the date of the eligible homeowner's death.

DOF Response: "While DOF does utilize the SSA data to verify whether a homeowner is deceased, there are limitations to use of this data. Specifically, the public death master file released by the SSA is an incomplete source of information on the deaths of NYC residents. An internal DOF study found that the number of NYC deaths reported in DOHMH data was 60 percent higher than the deaths in NYC reported in the SSA file for the same annual period. DOF has been using DOHMH [Department of Health and Mental Hygiene] data, as well as SSA data, to monitor eligibility. If a homeowner is confirmed deceased, DOF has been performing review of current

owners to determine eligibility. If the current owner is found ineligible, DOF removes the benefit.”

Auditor Comment: As discussed in the report, we identified 341 properties where the eligible homeowners were deceased—most for a number of years—but were still on record with DOF as the person receiving the tax exemption. Those 341 properties are in addition to 456 cooperative units and 115 other properties where the eligible owners are also deceased. DOF should ensure that it reviews all of those cases and removes the exemptions where the current owners are found ineligible. Moreover, DOF should implement a standard practice of checking the SSA records, as well as data from DOHMH, to verify that the homeowners on record with DOF as receiving Veterans’ Exemptions are not deceased.

5. Implement adequate controls to remove the exemptions from properties whose eligible owners are deceased, retroactively to the date of death.

DOF Response: “DOF has been implementing controls to remove exemptions from properties whose eligible owners are deceased. DOF must exercise prudence when removing an exemption due to death as there may be a surviving spouse/owner residing on the property and entitled to the benefits.”

6. Recover the \$798,346 in unwarranted tax reductions that resulted from the improper continuation of Veterans’ Exemptions after the qualifying homeowners died.

DOF Response: “For more than a decade, DOF did not proactively remove the Veterans’ Exemption for properties because of a death, and owners of properties receiving benefits may not have been knowledgeable or may have been confused about the tax benefit. DOF does not intend to punish those potentially ‘innocent’ owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.”

Auditor Comment: As a result of DOF’s failure for more than a decade to remove the Veterans’ Exemptions after the qualifying homeowners died, the City has lost at least \$798,346 in forgone property tax revenue, which DOF chooses not to seek to recover.

7. Verify whether homeowners eligible for STAR exemptions are deceased as reported by the SSA and this audit report, and determine whether the current property owners are eligible for the exemption. Where the current owners are determined to be ineligible, remove the STAR exemptions from applicable properties retroactively to the date of the eligible homeowner’s death and recover the \$368,146 in unwarranted tax reductions.

DOF Response: “DOF sent out notification letters to current property owners in November 2016 and in April 2017. As required by New York State law, DOF will revoke STAR benefits retroactively back to the date of ineligibility or a maximum of 6 years for homeowners who were confirmed deceased and receiving both the Veterans’ and STAR Exemptions.”

8. Investigate whether the 456 cooperative units and 115 other properties that have continued to receive Veterans' Exemptions following the death of the eligible veteran-homeowner are currently owned by eligible individuals.

DOF Response: "DOF will continue to investigate the eligibility of the owners for the remaining properties."

9. Recover any and all of the \$1,804,979 in questionable tax reductions on 456 cooperative units and 115 other properties that resulted from any improper continuation of Veterans' Exemptions after the qualifying veterans died, where DOF determines that there are no other qualified recipients.

DOF Response: "For more than a decade, DOF did not proactively remove the Veterans' Exemption for properties because of a death, and owners of properties receiving benefits may not have been knowledgeable or may have been confused about the tax benefit. DOF does not intend to punish those potentially "innocent" new owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit."

Auditor Comment: As a result of DOF's failure for more than a decade to remove the Veterans' Exemptions after the qualifying homeowners died, the City has lost the forgone property tax revenue on at least 85 of these properties (DOF is investigating an additional 344 properties), which DOF has chosen not to seek to recover.

10. Appropriately prorate the exemption calculations on properties with four or more units that resulted from the failure to properly calculate and limit such exemptions to the eligible owner's primary residence.

DOF Response: "DOF has implemented this policy. DOF has adjusted benefits to apply only to the owner's primary residential unit on properties with more than three residential units, not including cooperatives or condominiums."

11. Implement adequate controls to ensure that Veterans' Exemptions claimed for properties containing four or more units are prorated and limited to the owner's primary residence unit.

DOF Response: "Such controls exist. Since January 2017, DOF has proactively conducted random quality assurance checks to ensure benefits are being accurately prorated."

12. Recover the \$915,173 in unwarranted tax reductions that were improperly granted to properties containing four or more units.

DOF Response: "For more than a decade, DOF did not proactively review and document use of properties granted Veterans' Exemption, and owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned DOF does not intend to punish those potentially "innocent" owners. However, in the event of misrepresentation or fraud, DOF will retroactively

revoke the benefit regardless of whether an individual or business received the benefit.”

Auditor Comment: As a result of DOF’s failure for more than a decade to prorate the Veterans’ Exemptions applied to properties that contain four or more units, the City has lost at least \$915,173 in forgone property tax revenue, which DOF has chosen not to seek to recover.

13. Remove the unwarranted Veterans’ Exemptions from properties that, according to deeds recorded in ACRIS, are owned by either corporations or LLCs.

DOF Response: “Benefits have been removed from properties owned by corporations or LLCs for the tax roll beginning July 1, 2017.”

14. Implement adequate controls to prevent a property owned by a corporation or LLC from receiving the exemption.

DOF Response: “DOF has established a Compliance Unit responsible for reviewing EPR [Exemption Revoked] candidates and conducting random quality checks. Additionally, Standard Operating Procedures (SOPs) have been enhanced to reemphasize the ineligibility of business entities to receive benefits.”

15. Recover the \$246,831 in unwarranted tax reductions based on the improper application of Veterans’ Exemptions and STAR exemptions to properties owned by corporations or LLCs.

DOF Response: “DOF is pursuing the recovery of Veterans’ Exemptions and STAR exemptions retroactively for properties owned by corporations and LLCs either to date of deed or a maximum of 6 years.”

16. Verify ownership of 162 properties that DOF records show are improperly receiving compounded or multiple Veterans’ Exemptions and remove all improperly applied exemptions.

DOF Response: “DOF is in the process of ownership verification of the properties identified. Notices are currently being sent out. Review should be completed no later than December 2017.”

17. Recover the \$236,743 in unwarranted tax reductions that resulted from the incorrect application of multiple Veterans’ Exemptions to individual owners.

DOF Response: “For more than a decade, DOF did not require full documentation, including proof of military service, for properties granted Veterans’ Exemption, and owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those potentially ‘innocent’ owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.”

Auditor Comment: As a result of DOF's failure for more than a decade to require full documentation, including proof of military service, for properties granted Veterans' Exemptions, the number of unwarranted tax reductions could be significantly higher than was identified by this audit.

18. Modify the Real Property Assessment Data system to contain computer edit checks that will automatically:
 - a. Reject the Veterans' Exemptions for properties that are owned by corporations and LLCs;
 - b. Prorate the Veterans' Exemptions for properties that contain more than four units; and
 - c. Reject multiple Veterans' Exemptions for any property owned by an individual veteran or other eligible owner. List the full names of all veterans receiving the Veterans' Exemption for each property.

DOF Response: "The current Real Property Assessment Data (RPAD) system is scheduled to be replaced with the Property Tax System (PTS) in 2018. The new system will:

- a. Prohibit LLC 's and corporations from receiving personal exemptions, and
- b. Prorate benefits for properties containing more than 4 units.
- c. It will not automatically reject multiple Veterans' Exemption for individual properties, since there can be multiple qualified Veteran owners and each would be entitled to their own benefit.

In the interim, DOF is conducting quality assurance to remove properties that fall within these categories from receiving benefits erroneously."

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 property owners receiving a Veterans' Exemption as of July 1, 2016. We expanded our scope for those owners who may have improperly received or granted excessive exemptions, to include improper exemptions granted as of July 1, 2011, 2012, 2013, 2014 and 2015.

To achieve our audit objective, we reviewed DOF's Standard Operating Procedures for *Personal Exemptions — Processing an Application* to establish the approval process for Fiscal Year 2016. To gain an understanding of the exemption approval process, we interviewed DOF's Deputy Director of Operations. The results were documented in memoranda.

We used the New York State Real Property Tax Law § 458 and 458-a Veterans, NYS Volume 1 – Opinions of Counsel SBEA No. 54 and No.76, NYS Volume 9 – Opinions of Counsel SBEA No. 35, and NYS Volume 10 – Opinions of Counsel SBRPS No. 97 as audit criteria for eligibility.

We requested a list from DOF of all New York City properties, including the owners' social security numbers that received a Veterans' Exemption in Fiscal Year 2017. To determine the completeness of that file, we utilized the Fiscal Year 2017 *Final Assessment Roll* to extract 50 BBLs that, according to the file received from DOF, did receive the Veterans' Exemption. The June 2016 quarterly tax bill was researched for these BBLs and produced no deviation from the file sent by DOF. The accuracy of the list was tested directly through our audit testing as noted below.

During Fiscal Year 2016, there were 77,390 properties that received a Veterans' Exemption totaling approximately a \$368.1 million reduction in assessed taxable property values.

To determine whether DOF removed a Veterans' Exemption from properties after the property was transferred to new owners, we compared the veterans' names receiving the Veterans' Exemption to the names of the property owner receiving the STAR benefit in 2017 and identified properties where the names receiving benefits were different. For those properties with different names, we obtained the deeds to determine if the veterans owned the property. To determine the dollar value of taxes that DOF incorrectly exempted since the property was transferred or July 1, 2011, we obtained the tax bills for Fiscal Years 2012, 2013, 2014, 2015, 2016 and 2017, issued every June, for each of the identified properties.

To determine whether DOF removed a Veterans' Exemption from properties where the applicant is deceased, we matched all the social security numbers of property owners that DOF listed as receiving the exemption in Fiscal Year 2016 against the SSA's death records. For those veterans we identified as deceased, we obtained the deeds to determine if there was another party on the deed that could qualify as a beneficiary. To determine the dollar value of taxes that DOF incorrectly exempted since the date of death or July 1, 2011, we obtained the tax bills for Fiscal

Years 2012, 2013, 2014, 2015, 2016 and 2017, issued every June, for each of the identified properties.

To determine whether DOF granted excessive Veterans' Exemptions to properties with 4 or more units, we used data analytics to identify and extract properties building class codes indicating 4 or more units from the Fiscal Year 2017 Assessment Roll. We examined Fiscal Year 2017 *Final Assessment Rolls* for each BBL, which verified building class, and tax bills for Fiscal Years 2012, 2013, 2014, 2015, 2016, and 2017, issued every June, for each of the identified properties.

To determine whether DOF may have improperly granted a Veterans' Exemption to properties owned by a non-person entity, we used data analytics to identify and extract properties with a corporate or LLC name from the file provided by DOF listing all properties receiving a Veterans' Exemption in Fiscal Year 2016. We examined ownership records in the New York City ACRIS and tax bills for Fiscal Years 2011, 2012, 2013, 2014, 2015 and 2016, issued every June, for each of the identified properties.

To determine whether DOF granted excessive Veterans' Exemptions to properties with one owner, we analyzed the list of all the Veterans' Exemptions, identifying properties that were receiving multiple Veterans' Exemptions. We compared the properties receiving multiple Veterans' Exemptions against the list of veterans receiving STAR exemption to identify a property with only one owner. We examined ownership records in the New York City ACRIS and tax bills for Fiscal Years 2011, 2012, 2013, 2014, 2015 and 2016, issued every June, for each of the identified properties.



Department of Finance

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May 17, 2017

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Deputy Comptroller for Audit
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**Re: Draft Audit Report on the New York City Department of Finance's
Administration of the Veterans' Exemption Programs
SR16-119A**

Dear Ms. Landa,

The Department of Finance (DOF) has reviewed your audit report. Our response comments on the report's findings and addresses specific inaccuracies and misunderstandings in the report.

As background, after a period of more than a decade when DOF did not require eligibility re-certifications from tax benefit recipients, DOF has been actively engaged over the past year in updating its data and records to ensure the accuracy of all personal exemptions programs and has been establishing controls for prospective monitoring of eligibility. The effort has included the resumption of exemption renewals where required by law and has involved leveraging new data sources, such as Department of Health & Mental Hygiene (DOHMH) death certificate records, in order to improve the thoroughness of our reviews. In regards to the Veterans' exemption, we have been proactively contacting households since last fall about eligibility issues. The law does not require regular re-certifications by Veterans' Exemption recipients, but we have been reviewing information about program beneficiaries to ensure eligibility.

DOF has and will revoke tax benefits prospectively when a beneficiary is found to be ineligible, and retroactively as well when fraud is detected. Ineligible properties owned by LLCs or corporations and ineligible properties receiving School Tax Relief (STAR), which is a New York State-funded program subject to specific State law requirements, are also subject to retroactive recovery of benefits.

Cooperatives and Other Properties

The Draft Report identified 456 cooperative units and 115 other properties that continued to receive Veterans' Exemptions following the death of the eligible veteran-homeowner, and recommended DOF investigate whether the current owner is eligible.

DOF has investigated the properties identified and here are the results of our findings:

- 456 cooperatives units
 - a. Removed exemptions from 81 properties due to death or sales transfer
 - b. Allowed exemptions to continue on 92 properties due to a surviving spouse, or an eligible veteran
 - c. Review of the remaining 283 will be completed no later than September 2017. Ineligible benefits will be revoked for fiscal year 2017/18.
- 115 other properties
 - a. Removed exemptions from 4 properties due to death or sales transfer
 - b. Allowed exemptions to continue on 50 properties due to a surviving spouse, or an eligible veteran
 - c. Review of the remaining 61 will be completed no later than August 2017. Ineligible benefits will be revoked for fiscal year 2017/18.

Corporations and LLCs

The Draft Report recommended that DOF remove unwarranted Veterans' Exemptions from properties that are owned by either corporations or LLCs.

DOF revoked benefits from 57 of the 61 properties identified in the audit report as being owned by an LLC or a corporation. The remaining four properties will continue to receive their exemption for the following reasons:

- Two are residential cooperatives and the individual unit / shareholder owner(s) qualify for benefits for which they were granted.
- One retained a life estate for qualified veteran.
- One was organized as a limited family partnership for which the qualified veteran is a member.

Multiple Veterans' Exemptions

The Draft Report identified 162 properties that improperly received multiple Veterans' Exemptions, and recommended that DOF verify ownership.

DOF has investigated the properties identified in the audit report and removed either the old law or alternative exemption from 69 properties. These 69 properties were identified as receiving both benefits with only one eligible owner.

The calculations for the remaining 93 properties have been confirmed to be accurate.

Recommendations

1. DOF should remove Veterans' Exemptions from properties that were transferred from eligible to ineligible owners, retroactively to the date of transfer.

DOF has and will remove benefits from properties that were transferred from eligible to ineligible owners.

2. DOF should implement adequate controls to remove Veterans' Exemptions retroactive to the date of transfer when properties are transferred to new owners who do not demonstrate eligibility in response to DOF's notification letters.

DOF is in the process of implementing improved controls to remove Veterans' Exemptions from properties with ineligible new owners by developing a better system for reviewing and verifying sales and transfers of exempt property. In the interim, DOF is using the weekly Exempt Property Restored (EPR) report to review sales transfers, and remove benefits for new owners who are ineligible.

3. DOF should recover the \$1,654,869 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the properties were transferred to new, presumptively-ineligible owners.

For more than a decade, DOF did not proactively remove the Veterans' Exemption for properties with ownership changes, and new owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those potentially "innocent" purchasers. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.

4. DOF should verify whether homeowners eligible for Veterans' Exemptions are deceased as reported by the Social Security Administration (SSA) and this audit report, and determine whether the current property owners are eligible for the exemption as qualified recipients. Where the current owners are determined to be ineligible, remove the Veterans' Exemptions from applicable properties retroactively to the date of the eligible homeowner's death.

While DOF does utilize the SSA data to verify whether a homeowner is deceased, there are limitations to use of this data. Specifically, the public death master file released by the SSA is an incomplete source of information on the deaths of NYC residents. An internal DOF study found that the number of NYC deaths reported in DOHMH data was 60 percent higher than the deaths in NYC reported in the SSA file for the same annual period. DOF

has been using DOHMH data, as well as SSA data, to monitor eligibility. If a homeowner is confirmed deceased, DOF has been performing review of current owners to determine eligibility. If the current owner is found ineligible, DOF removes the benefit.

5. DOF should implement adequate controls to remove the exemptions from properties whose eligible owners are deceased, retroactively to the date of death.

DOF has been implementing controls to remove exemptions from properties whose eligible owners are deceased. DOF must exercise prudence when removing an exemption due to death as there may be a surviving spouse/owner residing on the property and entitled to the benefits.

6. DOF should recover the \$798,346 in unwarranted tax reductions that resulted from the improper continuation of Veterans' Exemptions after the qualifying homeowners died.

For more than a decade, DOF did not proactively remove the Veterans' Exemption for properties because of a death, and owners of properties receiving benefits may not have been knowledgeable or may have been confused about the tax benefit. DOF does not intend to punish those potentially "innocent" owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.

7. DOF should verify whether homeowners eligible for STAR exemptions are deceased as reported by the SSA and this audit report, and determine whether the current property owners are eligible for the exemption. Where the current owners are determined to be ineligible, remove STAR exemptions from applicable properties retroactively to the date of the eligible homeowner's death and recover the \$368,146 in unwarranted tax reductions.

DOF sent out notification letters to current property owners in November 2016 and in April 2017. As required by New York State law, DOF will revoke STAR benefits retroactively back to the date of ineligibility or a maximum of 6 years for homeowners who were confirmed deceased and receiving both the Veterans' and STAR Exemptions.

8. DOF should investigate whether the 456 cooperative units and 115 other properties that have continued to receive Veterans' Exemptions following the death of the eligible veteran-homeowner are currently owned by other eligible individuals.

DOF will continue to investigate the eligibility of the owners for the remaining properties.

9. DOF should recover any and all of the \$1,804,979 in questionable tax reductions on 456 cooperative units and 115 other properties that resulted from any improper continuation of

Veterans' Exemptions after the qualifying veterans died, where DOF determines that there are no other qualified recipients.

For more than a decade, DOF did not proactively remove the Veterans' Exemption for properties because of a death, and owners of properties receiving benefits may not have been knowledgeable or may have been confused about the tax benefit. DOF does not intend to punish those potentially "innocent" new owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.

10. DOF should appropriately prorate the exemption calculations on properties with four or more units that resulted from the failure to properly calculate and limit such exemptions to the eligible owner's primary residence.

DOF has implemented this policy. DOF has adjusted benefits to apply only to the owner's primary residential unit on properties with more than three residential units, not including cooperatives or condominiums.

11. DOF should implement adequate controls to ensure that Veterans' Exemptions claimed for properties containing four or more units are prorated and limited to the owner's primary residence unit.

Such controls exist. Since January 2017, DOF has proactively conducted random quality assurance checks to ensure benefits are being accurately prorated.

12. DOF should recover the \$915,173 in unwarranted tax reductions that were improperly granted to properties containing four or more units.

For more than a decade, DOF did not proactively review and document use of properties granted Veterans' Exemption, and owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those potentially "innocent" owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.

13. DOF should remove the unwarranted Veterans' Exemptions from properties that, according to deeds recorded in DOF's Automated City Register Information System (ACRIS), are owned by either corporations or LLCs.

Benefits have been removed from properties owned by corporations or LLCs for the tax roll beginning July 1, 2017.

14. DOF should implement adequate controls to prevent a property owned by a corporation or LLC from receiving the exemption.

DOF has established a Compliance Unit responsible for reviewing EPR candidates and conducting random quality checks. Additionally, Standard Operating Procedures (SOPs) have been enhanced to reemphasize the ineligibility of business entities to receive benefits.

15. DOF should recover the \$246,831 in unwarranted tax reductions based on the improper application of Veterans' Exemptions and STAR exemptions to properties owned by corporations or LLCs.

DOF is pursuing the recovery of Veterans' Exemptions and STAR exemptions retroactively for properties owned by corporations and LLCs either to date of deed or a maximum of 6 years.

16. DOF should verify ownership of 162 properties that DOF records show are improperly receiving compounded or multiple Veterans' Exemptions and remove all improperly applied exemptions.

DOF is in the process of ownership verification of the properties identified. Notices are currently being sent out. Review should be completed no later than December 2017.

17. DOF should recover the \$236,743 in unwarranted tax reductions that resulted from the incorrect application of multiple Veterans' Exemptions to individual owners.

For more than a decade, DOF did not require full documentation, including proof of military service, for properties granted Veterans' Exemption, and owners may not have been knowledgeable or may have been confused about the tax benefit on the properties they owned. DOF does not intend to punish those potentially "innocent" owners. However, in the event of misrepresentation or fraud, DOF will retroactively revoke the benefit regardless of whether an individual or business received the benefit.

18. DOF should modify the Real Property Assessment Data system to contain computer edit checks that will automatically:

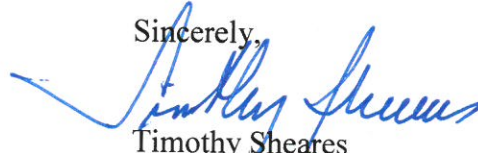
- a. Reject Veterans' Exemptions for properties that are owned by corporations and LLCs;
- b. Prorate the Veterans' Exemptions for properties that contain more than 4 units; and
- c. Reject multiple Veterans' Exemptions for each property owned by an individual veteran or other eligible owner. List the full names of all veterans receiving the Veterans' Exemption for each property.

The current Real Property Assessment Data (RPAD) system is scheduled to be replaced with the Property Tax System (PTS) in 2018. The new system will:

- a. Prohibit LLC's and corporations from receiving personal exemptions, and*
- b. Prorate benefits for properties containing more than 4 units.*
- c. It will not automatically reject multiple Veterans' Exemption for individual properties, since there can be multiple qualified Veteran owners and each would be entitled to their own benefit.*

In the interim, DOF is conducting quality assurance to remove properties that fall within these categories from receiving benefits erroneously.

Sincerely,



Timothy Sheares
Deputy Commissioner

cc: Michael Hyman, First Deputy Commissioner
Pierre Dejean, Assistant Commissioner
Sam Mayer, Senior Director, Internal Audit
George Davis III, Director, Mayor's Office of Operations