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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 4, 2016

Jacques Jiha, Ph.D
Commissioner
New York City Department of Finance
One Centre Street
New York, NY 10007

Re: Reporting of Billboard Income
Report 2015-F-17

Dear Commissioner Jiha:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 33 of the General Municipal Law, we have followed up on the actions taken by New York City Department of Finance officials to implement the recommendations contained in our prior audit report, *Reporting of Billboard Income* (2011-N-2).

Background, Scope, and Objective

Within the Department of Finance (Finance), the Property Division (Division) is responsible for ensuring that all real property in New York City (City) is valued fairly, accurately, and consistently. To accomplish this mission, the Division, in part, relies on the accurate submission of a Real Property Income and Expense Statement (RPIE) from the owners of income-producing property. Finance assessors are responsible for verifying income reported on RPIEs. Assessors also make observations during field visits, and correct reported income when they believe it is incorrect or omitted. Finance may also assess penalties for the failure to file an RPIE or for filing an inaccurate RPIE. According to Finance records, 748 property owners reported billboard income totaling \$165 million for City tax years 2013 and 2014.

Our prior audit found Finance had limited documentation to support that assessors verified RPIE billboard income. In addition, Finance was not doing enough to identify and follow up on properties with billboards. Consequently, there was an increased risk that property owners did not report billboard income on the RPIE.

Finance had not routinely obtained and reviewed a Department of Buildings list of properties with billboards. We obtained such a listing showing 871 properties with billboards and noted that for 717 (82.3 percent), no income had been reported to Finance. Subsequently, Finance began using the list and, as a result, identified \$9 million of additional billboard income

received by property owners. Based on this previously unreported income, the Department could generate an estimated \$500,000 of new tax revenue in the first year the income was reported and up to \$2.9 million of new revenue in the fifth year of reporting.

The City Administrative Code authorized Finance to issue penalties in each year since 1986 for non-filers or for the late or inaccurate filing of an RPIE. In September 2010, Finance began penalizing owners of income-producing properties that did not file an RPIE. These penalties resulted in an additional \$3.4 million charged on tax bills. However, penalties were not assessed for inaccurate or late RPIEs.

We issued our initial audit report on August 15, 2013. The objective of our follow-up review was to assess the extent of implementation, as of August 24, 2016, of the five recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Finance officials made some progress in correcting the problems we identified in the initial report. However, additional actions are still needed. Each of the five prior audit recommendations was partially implemented.

Follow-Up Observations

Recommendation 1

Routinely obtain and examine the Buildings Department listing of properties to ensure that Finance is aware of and follows up on any properties which are not present in Finance's records.

Status - Partially Implemented

Agency Action - Finance received billboard records from the Department of Buildings on July 24, 2013, January 8, 2014, and May 22, 2015. The same information was also obtained by the audit team. There was evidence that Finance staff followed up on the information provided by the Department of Buildings in 2013 to identify additional sources of potential taxable revenue. However, for the information provided in 2014 and 2015, there was no evidence that Finance staff followed up on properties that were not already posted to Finance's records to identify potential unreported revenue.

Recommendation 2

Document the required assessor verification of the property owner is reporting billboard income on the RPIE.

Status - Partially Implemented

Agency Action - Assessors do not routinely verify the information reported on each line item of

RPIEs, such as billboard income. However, if an RPIE shows a significant change in the amount of gross income reported from one year to another, it is flagged for review. Also, when an assessor makes a field visit, a note is made in the record that a particular property has a billboard. If the owner of that property (and billboard) omits billboard income on the next RPIE filed, Finance officials stated that the assessor will add the income to the RPIE and assess the corresponding tax.

Recommendation 3

Make sure that assessors verify the accuracy of billboard income reporting when income reported on RPIEs for a property vary significantly from year to year.

Status - Partially Implemented

Agency Action - We sampled 30 property records from Finance's Computer Assisted Mass Appraisal System (Vision Database) and found 23 properties had differences of at least 50 percent in reported billboard income from 2013 to 2014. For one of these 23 properties, the reported income increased from \$8,000 to \$108,000. However, based on our follow-up review, we determined that assessors verified the accuracy of reported income for only 8 of the 23 properties in question.

Recommendation 4

Ensure that assessors follow the requirements of the City Administrative Code and examine all taxable properties at least once every three years.

Status - Partially Implemented

Agency Action - Based on our review of the 30 sampled property records from the Vision Database, we found that 16 (of the 30) properties were field-visited by assessors at least once every three years. However, for the remaining 14 properties, there was no documentation that 13 were field-visited within the prescribed three-year time frame, and the remaining property had no evidence of any assessor visits.

At the closing conference, Finance officials stated that they are in the second year of a three-year Administrative Inspection Project. At the completion of this project, officials expect that assessors will have examined nearly every taxable property with a billboard.

Recommendation 5

Impose penalties authorized by the Administrative Code for the late or inaccurate filing of RPIEs. Document the basis for any decisions not to impose the required penalty or to subsequently credit a tax bill for the amount of an unpaid penalty.

Status - Partially Implemented

Agency Action - Finance provided information on properties wherein it imposed penalties for late filing or non-filing of RPIEs due June 1, 2014 and June 1, 2015. Penalties totaling \$484,950 were assessed to late RPIE filers. However, Finance had not assessed penalties to filers who submitted inaccurate RPIEs.

Further, during our follow-up review, we requested a list of all properties that should have filed an RPIE. However, Finance did not provide the requested listing until after the review's closing conference. Therefore, we did not determine if Finance adequately documented the basis for a decision to not impose a penalty or to credit a tax bill for the amount of an unpaid penalty.

Major contributors to this report were Abe Fish, Christine Chu, Anthony Belgrave, and Menard Petit-Phar.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department of Finance for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: C. Carino, Finance
G. Davis III, MOO