

New York City Department of Social Services

Controls Over Capital Improvements at City-Owned Homeless Shelters

Report 2018-N-3 | August 2020

OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Division of State Government Accountability



Audit Highlights

Objective

To determine whether the New York City Department of Homeless Services (DHS) has appropriate oversight and adequate controls over the capital improvement process at City-owned homeless shelters. Our audit covered the period from July 1, 2013 through December 16, 2019.

About the Program

DHS, an administrative unit of the New York City Department of Social Services, is the primary agency responsible for providing transitional housing and services for eligible homeless families and individuals in New York City (City) and for providing fiscal oversight of the homeless shelters. Governed by a “right to shelter” mandate, the City provides temporary emergency shelter to every eligible person who requests services. Over the years, a number of City homeless shelters have fallen into disrepair. The City has addressed the need with a significant increase in capital investment for City-owned shelters to correct conditions that have built up over many years. Capital investment includes new construction, renovations, and purchases of furnishings or equipment. DHS officials advised us that each project is prioritized based on safety, stability of the infrastructure, and cosmetic nature of renovations. Once a capital project is added to the DHS capital plan, it first goes through a design phase and then a construction phase. As of April 2019, there were 415 homeless shelters in the City, including 53 owned by the City, subject to DHS oversight. For City fiscal years 2014 to 2018, DHS had a total of 21 capital improvement contracts (17 construction and 4 design) with 69 projects (one contract can include multiple projects) totaling approximately \$39 million. Of the 53 City-owned shelters, 30 had capital improvement projects. All City agencies must follow the New York City Procurement Policy Board Rules (PPB Rules) for the procurement of all goods, services, and construction.

Key Findings

DHS lacks the necessary controls over City-owned homeless shelter capital improvement projects to ensure urgently needed projects are properly prioritized and completed timely and within budget. Across the areas examined, we found two key components of sound oversight and monitoring were either deficient or lacking altogether: DHS did not establish formal policies and procedures tailored specifically to its capital planning process to ensure consistent decision making across all projects, nor did it have strong project monitoring controls to minimize delays and cost overruns.

Of the nine projects in our sample:

- Four projects remained on DHS’ capital plan for lengthy periods – sometimes years – before being initiated.
- Once initiated, five projects were not completed on time, ranging from 6 months to 4½ years late.
- Six projects exceeded their original budgeted cost by a total of approximately \$9.7 million. Notably, one project – the East 119 Street project, which was originally expected to cost \$511,000 – exceeded its budget by \$2.7 million.
- Delays in initiating and completing capital improvements may have caused poor conditions to deteriorate even further, possibly resulting in increasing costs. Furthermore, for some projects in our sample, such deteriorating conditions forced homeless adults and families to relocate to other shelters or to other rooms within the shelter:

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- At Brooklyn's Auburn Family Residence, which housed 172 adult family units, the bathroom upgrade project to address antiquated communal bathroom conditions had significant delays. This project, with an original completion date of December 2018, is now expected to be finished in December 2022.
 - At Park Slope, a 100-bed women's shelter also in Brooklyn, the roof replacement project was added to the capital plan in March 2015, but construction did not begin until June 2018 – more than three years later.

Key Recommendations

- Establish written policies and procedures for managing all aspects of the capital improvement process, including capital project planning, monthly reporting requirements, and compliance with PPB Rules and DHS' internal practices regarding competitive bidding and maintenance of procurement documentation.
- Standardize the monthly reporting format and develop a process to ensure that monthly reports are dated, reviewed, and approved.
- Develop and implement a system for tracking the progress and costs of capital projects.



**Office of the State Comptroller
Division of State Government Accountability**

August 25, 2020

Mr. Steven Banks
Commissioner
New York City Department of Social Services
150 Greenwich Street, 42nd Floor
New York, NY 10007

Dear Commissioner Banks:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Controls Over Capital Improvements at City-Owned Homeless Shelters*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this draft report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
DHS	New York City Department of Homeless Services	<i>Auditee</i>
DSS	New York City Department of Social Services	<i>Auditee</i>
EAM	Enterprise Asset Management System	<i>System</i>
OMB	New York City Office of Management and Budget	<i>Agency</i>
OTDA	Office of Temporary and Disability Assistance	<i>Agency</i>
PPB Rules	Procurement Policy Board Rules	<i>Key Term</i>
Spreadsheet	Capital Projects Status Spreadsheet	<i>Key Term</i>

Background

The New York City Department of Homeless Services (DHS), an administrative unit of the New York City Department of Social Services (DSS), is the primary agency responsible for providing transitional housing and services for eligible homeless families and individuals in New York City (City) and for providing fiscal oversight of the homeless shelters. Governed by a “right to shelter” mandate, the City provides temporary emergency shelter to every eligible person who requests services. As of April 2019, there were 415 homeless shelters in the City, including 53 owned by the City, subject to DHS oversight.

Over the years, a significant number of City homeless shelters have fallen into disrepair, in some cases posing critical health and safety issues for residents and causing the temporary shutdown of facilities until they are habitable and the loss of much-needed space to accommodate a growing population. Prior audits have identified a range of substandard conditions that pose persistent dangers to the health and safety of this already vulnerable population. The City has addressed this issue with a marked increase in capital investment for shelter improvement projects. At the State level, the Office of Temporary and Disability Assistance (OTDA) has some oversight responsibility to ensure there is funding for capital projects identified through violations issued by City agencies.

DHS’ capital budget is mainly used to repair and improve its shelters and other facilities. DHS’ 2019 adopted capital budget totaled about \$84 million and includes the costs of shelter renovations and equipment purchases. To be considered a capital project, a project must have a minimum cost of \$35,000 and a useful life of five years or more. Examples of shelter capital projects are new roof installations and major bathroom renovations.

DHS is notified of potential capital projects by the provider, by DHS’ Environmental Design & Construction unit, or through violations issued by the Shelter Repair Squad, which consists of various City agencies. According to DHS officials, once a capital project need is identified (e.g., through inspections), the project is immediately incorporated into DHS’ capital plan, but must go through a series of budget approvals, including by the Office of Management and Budget (OMB) before work (design and construction) is initiated. DHS’ capital plan covers a period of ten years, and thus projects added to the plan can begin any time during the plan period. According to officials, safety-related projects are given first priority, followed by those that address infrastructure stability; renovations that are cosmetic in nature are considered the lowest priority.

Pursuant to the New York City Charter, DHS, as a mayoral agency, must maintain an internal control system that maximizes the effectiveness and integrity of agency operations and reduces vulnerability to fraud, waste, abuse, error, conflict of interest, and corruption. Furthermore, DHS is required to comply with the provisions of the City’s Procurement Policy Board Rules (PPB Rules) for the procurement of all goods, services, and construction. According to PPB Rules, DHS must maintain all documentation pertaining to the solicitation, award, and management of its contracts, including, but not limited to, a written copy of each report, record, justification, approval, determination, or filing as well as a copy of each original executed contract.

For City fiscal years 2014 to 2018, DHS had a total of 21 capital improvement contracts (17 construction and 4 design) with 69 projects (one contract can include multiple projects) totaling approximately \$39 million.

We selected a judgmental sample of 9 of 69 total projects. These projects were associated with 11 contracts. The sample was selected to represent projects in all boroughs, projects in complete and incomplete status, and both design and construction contract types. Our sample is further described in Table 1.

Table 1 – Sample Projects Reviewed

Shelter	Contract Type	Project Description	Budgeted Project Cost
Auburn Family Residence (Auburn)	Construction	Bathroom upgrade	\$7,669,000
Bellevue Men's Shelter (Bellevue)	Design	Interior renovations	\$102,000
	Construction	Exterior renovations	\$1,865,958
East 119 Street Veterans Residence (East 119 Street)	Construction	Sewer line replacement	\$511,000
Fort Washington Armory	Construction	Office and bathrooms	\$498,300
Jamaica Family Residence (Jamaica)	Design	Exterior renovations	\$250,000
Pamoja House	Construction	Roof replacement	\$2,491,313
Park Slope Women's Shelter (Park Slope)	Design	Roof replacement	\$375,000
	Construction	Roof replacement	\$3,719,000
Regent Family Residence (Regents)	Construction	Heating risers	\$723,000
Willow Avenue Men's Shelter (Willow Avenue)	Construction	Building upgrade	\$1,394,000

In August 2016, DHS and the New York City Human Resources Administration began integrating into a single management structure, under which both agencies report to the Commissioner of the Department of Social Services (DSS). Thus, for the latter part of the audit scope period, DHS was in the midst of implementing structural and organizational changes that resulted from this integration of operations.

Audit Findings and Recommendations

Given the size of its shelter project capital budget and the urgency of the need to improve facility conditions for a growing vulnerable population, it is imperative that DHS administer its capital project plan efficiently and effectively. However, we determined DHS lacks the necessary oversight and monitoring controls over City-owned homeless shelter capital improvement projects to ensure priority projects are brought to fruition timely and within budget. Specifically, across the areas examined, two key components of sound internal controls were either deficient or lacking altogether: DHS did not establish formal policies and procedures tailored specifically to its capital planning process to ensure consistent decision making across all projects and needed stronger monitoring to minimize delays and cost overruns. Furthermore, in the absence of such policies and procedures, DHS also took a lax approach to documenting its capital improvement process – calling into question the effectiveness of this process and DHS’ decision making.

Of the nine projects in our sample:

- Several projects in our sample had remained on the capital plan for lengthy periods – sometimes years – before work actually began. DHS did not provide assurance that other capital projects initiated in the interim were more critical than these delayed projects.
- Once initiated, six projects exceeded their original budgeted cost, ranging from \$202,889 up to \$2.7 million. For example, the East 119 Street project’s original budget was \$511,000 while the project’s cost at completion totaled \$3,200,161 – exceeding its original budget by \$2.7 million.
- Five projects exceeded their original project completion date, ranging from 6 months to 4½ years.

Furthermore, delays may have resulted in the worsening of already deteriorated conditions or residual damage and the need to relocate clients, not only compounding costs to the City and State but creating more instability for this already vulnerable population.

Capital Planning

Many of the issues we identify in this section stem from the fact that DHS has not created its own policies and procedures specifically tailored to its complex operations, including its capital improvement process. Instead, DHS follows generic City protocols, which do not provide the depth of guidance that DHS’ capital improvement process warrants.

DHS officials stated they are strengthening their management by developing additional DHS-specific protocols, including developing and establishing DHS-specific written policies and procedures.

Project Prioritization

According to DHS officials, once a capital improvement project is identified, it is immediately incorporated into DHS' capital plan. However, because DHS' capital plan covers a period of ten years, projects added to the plan can be initiated any time during this period. It is essential, therefore, that DHS have robust prioritization procedures in place to ensure the most critical shelter improvement projects are initiated swiftly.

DHS does not have formal policies and procedures documenting the basis for selecting projects for initiation. Without specific criteria to guide decision making, there is a risk that need is weighed inconsistently among projects and that projects of lower priority may be selected for initiation. Furthermore, DHS does not maintain documentation supporting its selection decisions.

Four projects in our sample (Jamaica, Regents, Willow Avenue, and Pamoja House) remained on the capital plan for lengthy periods – sometimes years – before being initiated. For example, Willow Avenue was added to the capital plan in January 2000, but design did not start until 2009 – 9 years later. Lacking documentation from DHS, we were unable to discern whether other projects initiated in the interim were actually a higher priority or whether there were mitigating factors that may have introduced delay for our sampled projects. We visited the shelters associated with all nine sampled projects and spoke with the DHS Project Managers and shelter management. During the course of these visits, we noted that, in three of the four cases, the delay in initiating these projects may have resulted in the worsening of already deteriorated conditions or residual damage and/or the need to relocate clients, not only increasing the cost to the City and State but also compounding the instability that this vulnerable population is already facing. For instance:

- Jamaica – Despite being added to the capital plan in March 2016, work for this project did not begin until July 2017. At the time of our site visit in March 2019, the project was still only in the design phase. Shelter management stated that the continuing roof leaks have caused three rooms to be unavailable for more than a year (see Exhibit). A fourth room also suffered damage from the leaks but was still in use. Management added that the leaks also affected staircases and walls directly below the roof. According to DHS officials, the design phase of the project was completed in October 2019.
- Regents – This project to reroute 13 heating risers (pipes) and install valves was added to the capital plan in October 2013, but work did not begin until September 2017 – almost four years later. As shelter management told us at our June 2019 visit, the work was needed to fix ceiling and flood damage from a burst pipe (see Exhibit), which required them to relocate clients. According to the Project Manager, the project was completed in November 2019, but only 3 of the 13 heating risers had, in fact, been repaired due to depletion of budgeted funds. We note that, even scaled back, this project was over budget by more than \$1 million.

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- Willow Avenue – This project, which entailed stairway redesign, overhaul of the heating system, and roof repair, was added to the capital plan in January 2000. However, work did not begin until 2009. The project was not finished until October 2014 – 14 years after being identified as a capital improvement need. DHS did not provide any monitoring reports or minutes; therefore, we were unable to determine the reasons for the delay.

Construction Delays and Other Issues

During our shelter visits, we also identified issues that adversely impacted the respective shelters, as follows:

- Auburn – This bathroom upgrade project was intended to address antiquated communal bathroom living conditions at the shelter, which housed 172 adult family units. Originally scheduled to be completed in December 2018, it had significant delays, resulting in a revised estimated completion date of December 2022. At our July 2019 site visit, the Project Manager told us that the contractor had not worked on the project since December 2018. Further, the delays forced DHS to relocate clients to another shelter. According to the Project Manager, the contractor did not have the proper licenses and permits, which delayed the work while the contractor obtained them. Additionally, he stated that this may have been the contractor’s first big contract. In fact, the minutes of a monthly meeting stated, “Contractor not providing any real support for the project.”
- Park Slope – This roof replacement project was added to the capital plan in March 2015, but construction did not begin until June 2018 – more than three years later. At our May 2019 visit to the shelter, the Project Manager informed us that, during the period leading up to the construction, the cafeteria, meeting room, atrium, and art studio were affected by roof leaks (see Exhibit), and they had to use buckets to catch water. The deteriorating conditions required clients to be relocated. During our visit, we observed continued leaks in the cafeteria and art studio. Given the nature of the project, it is not unreasonable to speculate that the three-year delay caused roof conditions to further deteriorate and further damages to occur. More timely intervention could have prevented not only greater damages, but also the need to relocate residents. The project was ultimately completed in October 2019. Upon our revisit of the shelter in December 2019, we identified no leaks.
- Fort Washington Armory – This project involved fixing an existing mold condition caused by a leaking steam pipe, the removal of flooring and scraping of moldy walls, and renovation of two bathrooms. According to DHS, this project was completed in March 2014. However, at our June 2019 site visit, we found that only one of the two bathrooms specified in the contract had actually been renovated. Moreover, according to shelter management, there were ongoing issues with the renovated bathroom due to the low-quality material used by the contractors, including major leaks from fixtures installed in the

bathroom showers. DHS provided virtually no monthly reports or minutes for this project. Consequently, we were unable to determine whether these issues had been discussed or addressed.

In response to our findings, DHS officials advised us that, as part of their planning process, priority is always given to projects to stabilize situations that pose risks to health and safety, with the goal of minimizing housing shortages. In addition, consideration is also given to the potential cost increases associated with project schedules. DHS officials stated this information is maintained in its Enterprise Asset Management System (EAM), as it was part of the justification documentation provided to OMB for project approval, and, as currently implemented, their capital project initiation process provides appropriate documentation.

We determined that the justification document that DHS uses does not capture the sort of information that would adequately support prioritizing one project over another. Project needs that are identified but not promptly addressed impact DHS' ability to provide adequate shelter and services to those in need. Particularly where DHS cannot support that its prioritization of other projects was justified, the lack of transparency gives rise to the perception of arbitrary decision making.

DHS officials also suggested that several factors should be considered regarding the length of time to bring a project to completion. For example, the date a project is placed in the budget is not the commencement date for design. Projects are placed in the budget years ahead of initiation, as part of long-term planning processes, and the process of design, construction procurement, and physical construction can legitimately take years. DHS officials also advised us that it is difficult to prioritize these projects in a formal manner because many factors are involved. However, DHS agreed that tracking and monitoring needs to be improved and advised us it has made a commitment to upgrade the EAM system, which will enable it to better track, monitor, and report on capital improvements. As part of this update, additional documentation, such as work orders, invoices, change orders, monthly reports, and meeting minutes, will be uploaded into EAM and permanently archived.

Reported Data/Monitoring

Monthly Reports and Meeting Minutes

DHS employs Project Managers and contracts with Construction Managers to ensure capital improvement projects are carried out efficiently and effectively. During the construction phase, Project Managers visit the construction site every two weeks, while Construction Managers are on site daily. For each project, Project Managers and Construction Managers prepare monthly capital construction project reports, including budget and status updates, as well as information on any delays and modifications. In addition to the monthly reports, monthly meetings are held between the contractor and DHS officials and the minutes from these meetings (both design and construction related) are documented.

Generally, DHS monitors projects through routine meetings with contractors and, once a project moves from design to construction, through monthly reports submitted by Project Managers. These monthly reports contain information such as budget and status updates, notification of delays, and construction modifications. Prior to 2017, DHS did not require Project Managers' reports and relied solely on Construction Managers' reports for this information. Three higher-dollar projects in our sample fall under this category: Bellevue, Fort Washington Armory, and Willow Avenue.

We requested the monthly reports and minutes for the nine capital improvement projects in our sample for the last three years through August 2019 and, for the three pre-2017 projects, the three years up to the date of project completion. This would account for a total of 147 Project Manager monthly reports, 180 Construction Manager monthly reports, and 222 monthly meeting minutes. As shown in Table 2, DHS was missing 70 Project Manager monthly reports, 66 Construction Manager monthly reports, and 164 monthly meeting minutes for these projects. In fact, DHS did not have a complete set of reports for any of our nine sampled projects. For example, DHS could not provide any Construction Manager monthly reports or meeting minutes for Willow Avenue, a project that predated the Project Manager monthly report requirement. The lack of construction documentation for this \$1.39 million project provides no assurance that DHS was adequately monitoring the project's progress and budget. This project exceeded its expected completion date by 3 years, 7 months and exceeded its budget by \$2.5 million.

Table 2 – Summary of Project Monthly Reports and Meeting Minutes Received*

Project	Phase	Project Manager Monthly Reports		Construction Manager Monthly Reports		Monthly Meeting Minutes	
		Total	Number Missing	Total	Number Missing	Total	Number Missing
Auburn	Construction	36	12	36	9	36	7
Bellevue	Design*					4	4
	Construction	**	**	13	3	13	10
East 119 Street	Construction	36	19	36	5	36	36
Fort Washington Armory	Construction	**	**	7	7	7	6
Jamaica	Design*					28	17
Pamoja House	Construction	31	13	31	7	31	31
Park Slope	Design*					10	10
	Construction	17	7	17	13	17	7
Regents	Construction	27	19	27	9	27	23
Willow Avenue	Construction	**	**	13	13	13	13
Total		147	70	180	66	222	164

* Project/Construction Manager reports are not required during the design phase.

** Prior to 2017, Project Managers did not prepare monthly reports.

In their response, DHS officials did not address the missing documents, stating only that the capital project team members sit in close proximity to one another and that they discuss projects routinely. However, without any written documentation of these

informal meetings, we have no way of knowing if these projects were discussed. Furthermore, there is no paper trail to support any decisions that capital project team members may have made in their informal discussions.

Notably, upon reviewing the Project Manager and Construction Manager monthly reports that were provided to us, we identified several inconsistencies that made us question the value of the reports provided:

- None of the reports contained a place for Project/Construction Managers' signatures or supervisory reviews. Without these signatures, we have no assurance that the reports were prepared contemporaneously and actually reviewed by the supervisor for accuracy and oversight.
- Reports often recycled the same "boilerplate" language from the prior month's report that may not accurately reflect the actual status. For example, the Construction Manager monthly reports for East 119 Street for each of the nine months from February 2017 to October 2017 were identical.
- Monthly reports were not prepared using a standardized format, and for some there was a noticeable inattention to detail. Inconsistency of presentation makes the work of monitoring and assessing delays, cost overages, and project quality more challenging for DHS. For example, the January 2015 meeting minutes for the Bellevue project simply stated, "The additional work at Auburn, Regent and Bellevue was discussed. The 12-10 e-mail summarizing all of the additional work authorized either verbally or through an e-mail was discussed. The design firm received the revised work order letters for all three shelters were received [sic] on the 12th."
- Whereas some reports were prepared more formally, with the "month" title printed either on the report cover or embedded within the report, many were instead handwritten. Other reports were not even identified by month.

In response, DHS officials agreed and stated that, going forward, all monthly reports and meeting minutes will be uploaded to the EAM system, which will become the system of record for project documents. Further, once upgraded, the EAM system will have the ability to record management signoffs, which will become part of the archived project record. DHS officials advised us they are currently working on creating a standardized reporting format.

Lack of Formal Tracking System

DHS' Director of Capital Projects, Design, and Construction informed us that he maintains a Capital Projects Status Spreadsheet (Spreadsheet), an internal tracking document used to update the status of all capital projects. The Spreadsheet includes, for each project, the design and construction start dates, percentage of design and construction completion, projected completion dates, and total budget (including funds not yet spent). OTDA requires DHS to submit these Spreadsheets biannually as a means to: "1) confirm that there is funding for capital projects that

were identified as violations during a shelter inspection and 2) to review the status and progress of funded capital projects.”

We reviewed the Spreadsheet and determined that it is inadequate for tracking a capital project’s cost or timeline because it lacks the necessary information and up-to-date data. Specifically, the Spreadsheet lacks the functionality to compare a project’s budgeted amount to current expenditures as well as project start and completion dates, nor does it indicate any modifications and/or reasons for project delays. We also determined the Spreadsheet contained inaccuracies and inconsistencies and was incomplete, further limiting its usefulness. For example, one of the nine capital improvement projects in our sample was not listed on the Spreadsheet. Without easy, immediate access to the status of all capital projects, DHS cannot effectively and efficiently track project costs and time.

We also determined that certain key milestone dates and costs were not readily available. Upon our request, DHS officials provided us with these key dates and costs for the nine capital improvement projects in our sample. We compared this data to the Spreadsheet and found inconsistencies with seven of the eight listed projects in the reporting of start and end dates and inconsistencies with all eight of the capital projects in the reporting of project total cost. For example, data provided by DHS indicated a budget of \$1.7 million for Regents while the Spreadsheet indicated \$700,000 – a difference of \$1 million. Further, the start and end dates were not consistent between the two sources.

In response, DHS officials contradicted their early statement and told us that the Spreadsheet was not intended to be used as a tracking tool. Regardless, DHS should ensure that the Spreadsheet is accurate if only because OTDA relies on the document for oversight of DHS and must be able to trust the reported data. Although we found inaccuracies and inconsistencies between the data that DHS provided and the Spreadsheet, we believe that the data provided was sufficiently reliable for our audit purposes.

DHS officials agreed that improvements to the Spreadsheet data are needed and advised us that the EAM data will be enhanced to produce quarterly reports, which will improve accuracy.

Capital Project Analysis

We used the data provided to us by DHS officials to compare contracted and actual costs and completion times for the eight completed projects in our sample. We omitted Auburn, as this project was still in progress at the time of our analysis. Of the eight completed projects, the design and/or construction phases for six (**bolded** in Table 3) exceeded the original completion date and/or the original budgeted costs. Notably, the East 119 Street project, one of the highest-dollar construction projects in our sample, exceeded the contract completion date by 4½ years and exceeded its budget by \$2.7 million.

Table 3 – Review of Completed Projects

Project	Phase	Completion Time Frame			Cost		
		Expected	Actual	Lag	Original	Actual	Difference
Bellevue	Design	10/15/2013	10/15/2013	–	\$102,000	\$452,763	\$350,763
	Construction	9/20/2015	9/20/2015		\$1,865,958	\$2,432,560	\$566,602
East 119 Street	Construction	4/1/2015	10/19/2019	4 years, 6 months	\$511,000	\$3,200,161	\$2,689,161
Fort Washington Armory	Construction	11/30/2015	3/15/2014	–	\$498,300	\$498,300	–
Jamaica	Design	10/15/2019	10/15/2019	–	\$250,000	\$250,000	–
Pamoja House	Construction	5/14/2018	11/30/2019	1 year, 6 months	\$2,491,313	\$4,847,351	\$2,356,038
Park Slope	Design	9/15/2016	9/15/2016	–	\$375,000	\$375,000	–
	Construction	4/15/2019	10/9/2019	6 months	\$3,719,000	\$3,921,889	\$202,889
Regents	Construction	1/4/2018	11/15/2019	1 year, 10 months	\$723,000	\$1,734,000	\$1,011,000
Willow Avenue	Construction	3/29/2011	10/31/2014	3 years, 7 months	\$1,394,000	\$3,904,184	\$2,510,184

The Auburn project is still in progress. However, it was originally scheduled to be completed in December 2018, but was then assigned a revised estimated completion date of December 2022 – in essence, a 4-year lag.

In response to our findings, DHS officials stated that the projects that exceeded their original costs were generally in buildings between 80 and 120 years old, for which original plans and drawings were not available. This made it difficult to identify issues while estimates were being prepared. During construction, the scope of work increased to include areas needing immediate attention that had not been observed prior to the start of work. New scopes required both design and hazmat testing. There were also unforeseen complications at various sites that altered both cost and completion time. DHS officials also stated they had change orders to support the time and cost overages. We reviewed the available documentation for the six projects that exceeded completion dates and budget and determined two – Willow Avenue and Park Slope (construction phase) – did not have associated change orders. For example, for Park Slope, DHS officials provided a change order log that totaled \$202,889, but did not provide the individually approved change orders. In addition, for three projects – Regents, East 119 Street, and Bellevue (construction phase) – change orders totaling \$1.6 million were not approved, as required. Also, DHS did not maintain the original work orders to fully account for the cost of Bellevue (design phase). For Fort Washington Armory, DHS did not provide the original work order but rather simply a list of the scope of work, which had no approval.

For three projects that exceeded budget and and/or completion dates – Pamoja House, Regents, and Auburn – we further analyzed the monthly reports and meeting minutes and found no evidence that the cost and completion issues for these projects were being monitored consistently. Nor did we find evidence that

DHS performed analyses of delays and cost overages for the sampled capital improvement projects.

DHS officials agreed and stated that the EAM system upgrade will allow all project creation and management data points to be archived, including estimate updates, change orders, and schedule changes. Further, the new system will facilitate better tracking of factors such as negotiations between design consultants and contractors due to unforeseen field conditions during construction, which cause cost and time overruns.

Compliance With PPB Rules and DHS Internal Practices

DHS is required to follow PPB Rules for the procurement of all goods and services in order to maximize to the fullest extent the purchasing power of the City; to foster effective broad-based competition from all segments of the vendor community; and to safeguard the integrity of the procurement system and protect against corruption, waste, fraud, and abuse. Contracts should be awarded only to responsible vendors that demonstrate business integrity, financial capacity, and the ability to fulfill the requirements of the contract. For each contract, DHS is required to maintain a file of all documentation pertaining to contract solicitation, award, and management and retain it for a minimum of seven years after the contract expires. Specifically, the contract registration packet should include: the original contract agreement, pre-solicitation review, notice of solicitation, recommendation for award (construction) or proposal (design), and bidder's invitation for bid (construction) or proposal (design). According to DHS officials, as part of DHS' own documentation retention practices, they also maintain bid tabulation sheets for all contracts as well as time-stamped envelopes/receipts.

To determine whether DHS complied with PPB Rules and its documentation retention practices stated above, we reviewed the contract registration packets for our sample of 11 capital improvement contracts. We determined that DHS did not always maintain the required documentation for its registered contracts. For three of the eight construction contracts (Bellevue, Regents, and East 119 Street), DHS did not maintain all losing bidder documentation (e.g., losing bids, time-stamped envelopes/receipts) – important evidence of open and fair competition. For two of three design contracts (Bellevue and Park Slope), DHS did not maintain the proposal submissions. Without such documentation, we cannot determine whether DHS complied with PPB Rules or its own requirements or whether these contracts were properly bid.

In addition, for 2 of the 11 contracts, DHS officials did not have copies of the original contract agreement. Instead, they provided us with modified contracts. Unlike the original contracts, modified contracts do not show the costs and project start dates or the renewal option, where applicable.

DHS officials' response to these preliminary findings did not reference the failure to comply with PPB documentation rules, and only addressed their own documentation retention requirements. DHS officials advised us that it is their own policy to maintain the time-stamped envelopes/receipts and they usually keep them. We note here, as we do throughout the report, that written policies and procedures would have made this requirement clear to DHS employees and held them accountable for compliance.

Recommendations

1. Establish written policies or procedures for managing all aspects of the capital improvement process, including but not limited to:
 - The capital project planning process, including justification and criteria for project prioritization.
 - Monthly reporting requirements to ensure that reports and meeting minutes are consistently completed, reviewed, and retained.
 - Compliance with PPB Rules and DHS' internal practices regarding competitive bidding and maintenance of procurement documentation.
2. Standardize the monthly reporting format and develop a process to ensure that monthly reports are dated, reviewed, and approved.
3. Implement controls to ensure that capital project data in the Spreadsheet is accurate.
4. Develop and implement a system for tracking the progress and costs of capital projects.

Audit Scope, Objective, and Methodology

The audit objective was to determine whether DHS has appropriate oversight and adequate controls in place over the capital improvement process. Our audit covered the period from July 1, 2013 through December 16, 2019.

To accomplish our objective and assess the relevant internal controls related to DHS' monitoring of capital improvements at City-owned homeless shelters, we interviewed key personnel from DHS and shelter management. To determine whether DHS staff complied with PPB Rules and DHS internal practices, we selected the contract registration packets for a judgmental sample of 11 capital improvement contracts, comprising nine projects. The contracts were selected based on the following criteria: high dollar value, borough representation, complete and incomplete status, and contract type (design and construction). We requested the Project Manager and Construction Manager monthly reports as well as meeting minutes for the nine capital improvement projects in our sample to determine if they were completed, as required. We selected three projects – Pamoja House, Regents, and Auburn – based on the length of completion time overages and/or the amounts of cost overruns, to determine whether DHS was tracking and monitoring the status of the capital projects. We also compared the Spreadsheet and a table of milestone dates to corroborate DHS' data accuracy. In addition, we conducted visits to the homeless shelters to observe and corroborate DHS' capital improvement efforts and used this same judgmental sample to determine whether projects were on time and on budget. A judgmental sample by definition cannot be projected to the population.

Statutory Requirements

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

We conducted our performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained during our audit provides a reasonable basis for our findings and conclusions based on our audit objective.

As is our practice, we notified DHS officials at the outset of the audit that we would be requesting a representation letter in which DHS management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In this letter, officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. DHS officials further affirm either that the entities have complied with all laws, rules, and regulations applicable to their operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, DHS has not provided a representation letter in connection with this audit. Further, officials at DHS advised us that the New York City Mayor's Office of Operations has informed them that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack assurance from DHS officials that all relevant information was provided to us during the audit.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We provided a draft copy of this report to DSS officials for their review and formal comment. Their comments were considered in preparing this final report and are included at the end. In their response, DSS officials generally accepted most of our

conclusions, but disagreed with others. Our responses to certain DSS comments are included in the report's State Comptroller's Comments.

Within 180 days after the final release of this report, we request that the Commissioner of the New York City Department of Social Services report to the State Comptroller, advising what steps were taken to implement the recommendations contained in this report, and if the recommendations were not implemented, the reasons why.

Exhibit

Auditor Observations



Regents heating risers: damage from flooding



Park Slope roof replacement: water leaks in the art studio



Jamaica exterior renovation: this room is off-limits due to water leak damage

Agency Comments



**Department of
Social Services**

Human Resources
Administration

Department of
Homeless Services

W-2-545
Rev. 04/19

Steven Banks
Commissioner

June 10, 2020

Molly Murphy
DSS First Deputy Commissioner

Mr. Stephen C. Lynch
NYS Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Saratu Grace Gharthey
Chief Program Accountability
Officer

151 West Broadway
New York, NY 10013

212 274 5600

Re: Agency Response to the Draft Audit Report, NYC Department of Homeless Services- Capital Improvements Projects Audit 2018-N-3

Dear Mr. Lynch,

We have received the draft report for the OSC Audit of NYC Department of Homeless Services Capital Improvement Projects 2018-N-3.

Please find enclosed our agency response in the form of a corrective action plan which identifies the actions already taken, and that will be taken, in accordance with the plan to address the recommendations contained in the report. While the agency does not agree with all the report's recommendations, we agree that better tracking and monitoring are needed. Improvements to the monthly reporting process were implemented in March of 2020. A workgroup has been formed to develop more effective written policies and procedures, and consultants have been retained to support the enhancement of the existing tracking system's functionality.

Nonetheless we note the highly complicated nature of capital improvement processes in which unforeseen field and site conditions, aged buildings, and the need to maintain shelter capacity, can legitimately delay completion times and increase costs. We respectfully note that the date a project is placed on the Capital budget is not the commencement date for design; projects are often placed in the budget years ahead of initiation, as part of long term planning processes; and the process of design, construction procurement and physical construction, particularly for large infrastructure processes, can legitimately take years. Accordingly, we ask that the draft report be revised to incorporate the information in Appendix A to the corrective action plan that sets forth the individual issues affecting each of the projects so that the record reflects the complexities that were encountered.

The agency remains committed to its mission of serving New York City's most vulnerable population in the most efficient and effective manner, while adhering to all applicable rules, regulations and laws by which we are bound. We recognize the important role timely and efficient completion of capital improvements play in meeting this commitment, and we take this opportunity to express our appreciation

[Comment 1](#)

for the efforts that your office has invested in this audit to assist us in achieving our goals.

We are confident that our progress and our response to this audit demonstrate the agency's commitment to continually improving our operations. Should you have any questions regarding the enclosed, please contact Sonia Lamrhari, Director of the DSS Bureau of Audit Coordination at 929-221-5724.

Sincerely,



Maura Hayes-Chaffe
Assistant Deputy Commissioner, Audit Services

Enclosures

**NYC DEPARTMENT OF SOCIAL SERVICES
 OFFICE OF AUDIT SERVICES
 CORRECTIVE ACTION PLAN**

Audit Name: NYC Comptroller Audit of DHS Controls Over Capital Improvements & Repairs at Homeless Shelters Draft
Audit Number: 2018-N-3

Date: June 10, 2020

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 1:</p> <p>Establish written policies or procedures for managing all aspects of the capital improvement process, including but not limited to:</p> <ul style="list-style-type: none"> The capital project planning process, including justification and criteria for project prioritization. Monthly reporting requirements to ensure that reports and meeting minutes are consistently completed, reviewed, and retained. Compliance with PPB Rules and DHS' internal practices regarding competitive bidding and maintenance of procurement documentation. 	<p>Partially Agree</p> <p>We agree that specific written policies and procedures should be developed. DHS has formed a workgroup to develop and establish specific written policies, procedures that will provide a written framework to support the planning process and project prioritization.</p> <p>However, we do not agree with the report's conclusion that DHS currently lacks an appropriate process for planning and prioritizing projects. The capital project planning process is reflected in DHS CPI and budget processes, and projects are prioritized based on potential health/life safety impacts and the need to stabilize major building systems. This is done while also minimizing reductions in client capacity. The report oversimplifies some of the complexities of the capital project process; it is not uncommon, for example, for unforeseen complications with structure(s) and field conditions to cause unavoidable delays and cost increases. It is also important to recognize that most capital projects are being undertaken in very old structures which are still occupied. This necessitates project staging and relocation of clients where needed. Please see the attached Appendix A with comments regarding some of the projects referenced on pages 3 and 10 of the report.</p>	<p>DHS Facilities & Logistics</p>	<p>Develop and establish DHS specific written policies.</p> <p align="center">Comment 2</p>	<p>January 2021</p>

NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT SERVICES
CORRECTIVE ACTION PLAN

Audit Name: NYS Comptroller Audit of DHS Controls Over Capital Improvements & Repairs at Homeless Shelters Draft
Audit Number: 2018-N-3

Date: June 10, 2020

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
	We do not agree that PPB rules were not followed. DSS has had oversight of DHS capital projects since the integration was completed in 2017. Under DSS's purview all procurement rules regarding competitive bidding and documentation have been complied with.		Comment 3	
Recommendation 2: Standardize the monthly reporting format and develop a process to ensure that monthly reports are dated, reviewed, and approved.	Agree A standardized monthly report format was implemented in March of 2020. This predates work on some of the projects (such as Fort Washington Armory) referred to in the report. A workflow to ensure monthly reports are reviewed and dated is now being followed. Reports are created by a Project Manager, then are routed to the Director then to the Assistant Commissioner for signature. PDF's of final product are archived on the network.	DHS Facilities & Logistics	Ensure written signoff and meeting minutes of capital projects.	Implemented/ March 2020
Recommendation 3: Implement controls to ensure that capital project data in the Spreadsheet is accurate.	Agree DHS will integrate a two-tiered review system and will utilize direct data pulls from FMS to enhance our review of data in the spreadsheet to reduce the chance of human error in the report. Spreadsheet accuracy will be maintained by coordinating all data with a download from FMS to reflect current capital project data.	DHS Facilities & Logistics	Coordinate and ensure spreadsheet accuracy from FMS.	July 2020

NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT SERVICES
CORRECTIVE ACTION PLAN

Audit Name: NYS Comptroller Audit of DHS Controls Over Capital Improvements & Repairs at Homeless Shelters Draft
Audit Number: 2018-N-3

Date: June 10, 2020

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 4:</p> <p>Develop and implement a system for tracking the progress and costs of capital projects.</p>	<p>Partially Agree</p> <p>DHS does currently have a system for tracking capital projects. Each capital project begins with a project record entered into EAM. This system allows the tracking of project updates, change orders, budget actions, etc. to provide data points supporting planning decisions. As noted above in response to Recommendation 2, it is not uncommon for complications to cause unavoidable delays and increased costs.</p> <p>Nonetheless, we agree that an enhanced tracking system would be helpful, and as part of a planned upgrade the EAM system will be enhanced and fully integrated with the City Financial Management system (FMS) Passport, the new procurement tool. DHS has entered into an agreement with consultants to review and identify needed data and appropriate solutions to support this enhancement.</p>	<p>DHS Facilities & Logistics</p>	<p>Enhance EAM system to integrate with the City FMS system.</p> <p>Comment 4</p> <p>Comment 5</p>	<p>January 2022</p>

Draft Report: Page 1, Paragraph 3- bullet 3:

The draft reports refer to six projects that “exceeded their original budgeted cost by a total of approximately \$9.7 million. Notably, one project – the East 119 Street project, which was originally expected to cost \$511,000 – exceeded its budget by \$2.7 million”

DHS Response:

The six projects that exceeded their original costs were generally in buildings between 80 and 120 years old, for which original plans and drawings were not available. This made it difficult to identify issues while estimates were being prepared. During construction, the scope of work increased to include areas needing immediate attention that had not been observed prior to the start of work. New scopes required both design and hazmat testing. There were also unforeseen complications at various sites that altered both cost and completion time. While these resulted in increased net cost, the projects also yielded increased net value to the City.

[Comment 5](#)

East 119th St – The project exceeded the original project budget due to an unforeseen field condition. Large rock formations under the building made it impossible to construct the piping and plumbing as designed. These rocks changed the scope and method of construction and required enhanced safety protocols as ordered by the Department of Buildings. This resulted in the need for a complete redesign at a higher cost.

[Comment 6](#)

Brooklyn’s Auburn Family Residence - The vendor for the Brooklyn’s Auburn project encountered issues which prevented them from completing the project as originally scheduled. This is shared space, and some of the issues were caused by another independent capital project managed by H+H which manages the building’s heat and plumbing system. This created competing priorities. The vendor has recently been given a time extension and has been ordered to accelerate the project.

[Comment 7](#)

Park Slope Project – The design phase commenced in FY 2016 and construction was completed in 2019. This is an appropriate timeframe to design, bid and construct a project of this scope and complexity.

[Comment 5](#)

Jamaica Project – While the Jamaica project was approved in March of 2016, the funds were not placed in the budget until FY 2017. This is the normal CPI process for creating a capital project during the prep period for the capital budget.

[Comment 8](#)

Regent Projects - All heating risers needing repair or replacement have been completed. This was a complicated project which called for the replacement of extremely old and deteriorated plumbing in an occupied building, which increased the time the contractor was on site.

[Comment 5](#)

Willow Project - The project ID was first created in FMS in FY 2000 as part of the ten-year capital plan. The project was not created with the anticipation that work would begin immediately.

[Comment 9](#)

State Comptroller's Comments

1. On page 11 of our report, we recognize that the date a project is placed in the budget is not the commencement date for design.
2. We disagree. As stated on page 11 of our report, we determined that the justification document DHS uses (Capital Project Initiation) does not capture the sort of information that would adequately support the planning process, such as prioritizing one project over another. For example, DHS does not maintain documentation to support its selection decisions. In the absence of such documentation, we were unable to discern whether other projects initiated in the interim were actually a higher priority than the delayed sampled projects. Also refer to Comment 4.
3. We stand by our conclusion that PPB rules were not followed. During our audit, we found instances of non-compliance in the period before the integration of DHS and DSS, as described in detail on page 16.
4. The EAM system, in its current configuration, is not adequate for tracking capital projects. As stated on pages 11 and 16 of our report, DHS agreed that tracking and monitoring needs to be improved and advised us it has made a commitment to upgrade the EAM system, which will enable it to better track, monitor, and report on capital improvements. As part of this update, additional documentation, such as work orders, invoices, change orders, monthly reports, and meeting minutes, will be uploaded into EAM and permanently archived. Further, DHS officials stated that the EAM system upgrade will allow all data points to be archived regarding project creation and management, including estimate updates, change orders, and schedule changes. Additionally, the new system will facilitate better tracking of various factors, such as negotiations between design consultants and contractors due to unforeseen field conditions during construction, which cause cost and time overruns. While we acknowledge that capital projects can have complexities or unforeseen complications, it is important that these projects be monitored closely.
5. Our report compared DHS' projected capital project time and costs to the actual time and costs incurred. However, the overall lack of construction documentation (e.g., project monthly reports, meeting minutes) made it difficult to determine the reasons for time and cost overruns, and provided no assurances that DHS was adequately monitoring a project's progress and budget.
6. While we acknowledge that unforeseen circumstances can cause delays, it is important that these projects be monitored closely. Without easy and immediate access to the status of all capital projects, DHS cannot effectively track project costs and time.
7. The Auburn project was not one of the six projects we identified as having exceeded the original completion date and/or the original budgeted cost; because it was still in progress at the time, we omitted it from our analysis. Rather, we pointed out Auburn for its significant delays, which ultimately added four years to the project's completion date and forced DHS to relocate clients. Moreover, as discussed on page 10 of the report, the delays were attributable to known issues with the contractor – and could have been minimized had there been adequate monitoring.
8. The Jamaica project was not one of the six projects we identified that exceeded the original completion date and/or original budgeted cost. Rather, Jamaica was one of four examples of projects that had existed on the capital plan for a lengthy period before being initiated. Jamaica was added to the capital plan in March 2016 but was still in the design phase three years later.

The delay in initiating this project may have resulted in the worsening of conditions, increasing the cost to the City and State.

9. DHS officials could not provide any documentation (e.g., change order) to justify the overages in both time (3 years, 7 months) and costs (\$2,510,184).

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