New York City Department of Social Services

Oversight of Contract Expenditures of Bowery Residents' Committee

Report 2019-N-8 | December 2021

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 is effectively monitoring its contract with the Bowery Residents' Committee (BRC) to ensure reported costs are allowable, supported, and program related. The audit covered the period from July 1, 2016 through June 30, 2019.

About the Program

The New York City Department of Homeless Services (DHS), an administrative unit of the New York City Department of Social Services (DSS), is the agency responsible for providing transitional housing and services for eligible homeless families and individuals in the City and for providing fiscal oversight of the homeless shelters. In February 2011, DHS contracted with BRC, a City-based not-for-profit organization, to provide emergency shelter and ancillary services for mentally ill and chemically addicted homeless adults at their 200-bed Jack Ryan Residence (JRR) for the period from September 2010 to June 2021. The original contract for $76.1 million was amended five times for a total of $12.7 million during the 2014-15 to 2018-19 fiscal years to an aggregate of $88.8 million. During the three fiscal years ended June 30, 2019, BRC claimed $23.6 million in reimbursable expenses for the contract.

DHS is responsible for monitoring its contract with BRC to ensure reported costs are allowable, supported, and program related. To qualify for reimbursement, BRC's invoices/expenses must comply with the DHS Human Service Providers Fiscal Manual (Fiscal Manual), the New York City Health and Human Services Cost Policies and Procedures Manual (Cost Manual), and the JRR contract.

Key Findings

DHS is not effectively monitoring its contract with BRC to ensure reported costs are allowable, supported, and program related. DHS did not complete required expenditure reviews or ensure that required year-end closeouts were completed on time. Consequently, for the three fiscal years ended June 30, 2019, we identified $1,428,199 or 6.05% of all reported costs that did not comply with the requirements in the Fiscal Manual, Cost Manual, and contract, including: $535,140 in personal service costs; $831,772 in other than personal service costs; and $61,287 in indirect costs.

Key Recommendations

- Review and recover, as appropriate, $1,428,199 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and JRR contract.
- Review and approve all provider allocation methodologies.
- Provide training to providers to ensure that they are aware of the reimbursement requirements.
- Monitor the JRR contract to ensure that government resources are used only for expenses that are allowable, supported, and program appropriate.

Office of the State Comptroller
Division of State Government Accountability

December 30, 2021

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 *Oversight of Contract Expenditures of Bowery Residents' Committee*. 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 report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
BRC	Bowery Residents' Committee	*Service Provider*
Cost Manual	New York City Health and Human Services Cost Policies and Procedures Manual	*Policy*
DHS	New York City Department of Homeless Services	*Auditee*
DSS	New York City Department of Social Services	*Auditee*
Fiscal Manual	DHS Human Service Providers Fiscal Manual	*Policy*
JRR	Jack Ryan Residence	*Facility*
OTPS	Other than personal service	*Key Term*

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 agency responsible for providing transitional housing and services for eligible homeless families and individuals in the City and for providing fiscal oversight of the homeless shelters. During the 2018-19 fiscal year, DHS spent approximately $2.2 billion to provide transitional housing and services to approximately 60,000 adults and children (16,000 single adults, 5,000 adult families, and 39,000 adult families with children). DHS' 2018-19 operation was funded primarily by City funds (62%), with contributions from State (8%) and federal (30%) governments. DHS contracts with private not-for-profit companies to provide these services in compliance with their contractual terms; State laws; and State, City, and DHS regulations. As of June 2019, there were 76 private homeless shelter providers, with 242 registered contracts, providing transitional housing and services for single adults and families.

In February 2011, DHS contracted with Bowery Residents' Committee (BRC), a City-based provider, to provide emergency shelter and ancillary services for mentally ill and chemically addicted homeless adults at their 200-bed Jack Ryan Residence (JRR) for the period from September 2010 to June 2021. The original contract for $76.1 million was amended five times for a total of $12.7 million during the 2014-15 to 2018-19 fiscal years to an aggregate cost of approximately $88.8 million. During the three fiscal years ended June 30, 2019, BRC operated six transitional adult homeless shelters and three safe havens, and provided homeless outreach services to homeless individuals and families. BRC's operations were funded primarily by governmental sources. In 2019, BRC held 11 contracts with DHS valued at approximately $547.2 million.

The DHS Human Service Providers Fiscal Manual (Fiscal Manual) requires providers to submit monthly invoices containing the actual expenses they paid during the month of the invoice. The providers must support these expenses by submitting documentation such as receipts, invoices, and proof of payment. To qualify for reimbursement, BRC's invoices/expenses must comply with the Fiscal Manual, the New York City Health and Human Services Cost Policies and Procedures Manual (Cost Manual), and the JRR contract, which provide guidance to homeless service providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses related to multiple contracts.

During the three fiscal years ended June 30, 2019, BRC claimed $23.6 million in reimbursable expenses for the contract, including $12.2 million in personal services, $9.9 million in other than personal services (OTPS), and $1.5 million in indirect expenses.

Audit Findings and Recommendations

DHS utilizes the Fiscal Manual, Cost Manual, and the contract to oversee BRC services provided at JRR and ensure that expenses are allowable and documented. Costs are considered for reimbursement provided they are reasonable, necessary, directly related to the program, and sufficiently documented. For the three fiscal years ended June 30, 2019, we identified $1,428,199 in reported costs that did not comply with these requirements, indicating that a significant monitoring deficiency exists. This represents approximately 6.05% of all costs reported by BRC. These ineligible expenses include $535,140 in personal service costs, $831,772 in OTPS costs, and $61,287 in indirect costs.

Strong internal controls are critical to the overall health of an organization. These controls help to safeguard assets and ensure reliable financial reporting and compliance with regulatory requirements. We attributed the recommended recoveries, in part, to inadequate oversight by DHS.

Personal Service Costs

According to the Cost Manual, personal services include all compensation, such as wages and salaries, paid currently or accrued for services the provider's employees rendered during the contract term. During the three fiscal years ended June 30, 2019, BRC reported approximately $12.2 million in personal service costs. We identified $535,140 in costs that did not comply with the written guidance in the Fiscal Manual, Cost Manual, and contract.

Excessive Allocation of Compensation

The Cost Manual states that claimed costs must be reasonable and necessary for the performance of the contract. According to the JRR contract, DHS reserves the right to require providers to allocate costs that are attributable to two or more programs. The allocation must fairly and accurately reflect the actual allocable share of such costs. The Fiscal Manual states that, for all allocated costs, the provider must specify the allocation methodology used and indicate the method used on the Allocation Methodology Worksheet. In addition, the cost allocation methodology should be reasonable, consistent, and auditable. The Fiscal Manual also prescribes the use of actual time per employee time records or time sheet sampling for allocating personal service costs. We identified $358,166 in expenses that were excessively allocated to the JRR contract.

Community Technicians

During our audit period, we found that JRR shared its 12-story building, located at 127-131 West 25th Street, with several other BRC programs – including three other client-based programs (Chemical Dependency Crisis Center, Fred Cooper Substance Abuse Services Center, and Reception Center). The shared space included the entrances to the building, which were staffed by BRC employees. Staff and long-term visitors generally use the 131 West 25th Street entrance via their access cards, while residential clients and other visitors use the 127 West 25th

Street entrance. Employees with the title of community technicians are stationed at the front entrance. The employees at the front entrance perform security checks and log clients and visitors entering the facility. For the three fiscal years ended June 30, 2019, BRC claimed $608,591 for 11 community technicians, whom we were able to identify as working the front door entrances. However, we determined that these costs were charged exclusively to the JRR contract, even though the services performed benefited other BRC programs and its management.

To determine a fair and reasonable amount that should have been allocated to the JRR contract, we reviewed the building occupancy information that BRC provided for the four client-based programs housed in the West 25th Street building. We determined that approximately $326,031 (53.6%) of the compensation for these employees should have been charged to the JRR contract. We recommend that DHS recover $282,560 ($226,861 in salaries and $55,699 in related fringe benefits) that was overallocated to the JRR contract.

DHS officials disagreed, stating that 15 community technicians from the other three residential programs, with aggregate compensation totaling $467,606 ($371,116 in salaries and $96,490 in fringe benefits), also worked the front door. However, we reviewed the information provided and found significant discrepancies between the salaries and related fringe benefits. The actual fringe benefit rates were lower than the 26% DHS officials used in their calculations (25.3%, 21.9%, and 25.2% for the 2016-17, 2017-18, and 2018-19 fiscal years, respectively). Additionally, the salaries, number of employees, and hours worked are significantly disproportionate across the three fiscal years. The total front door salaries for fiscal year 2016-17 were 208% higher than for 2017-18 and 230% higher than for fiscal year 2018-19. Similarly, the hours claimed exceeded the hours required for the front door by 14,262 hours for the 2016-17 fiscal year and 1,765 hours for 2017-18 fiscal year and were 2,521 hours lower than the hours required in fiscal year 2018-19. Consequently, these inconsistencies, coupled with BRC's refusal to provide staff rosters and other pertinent information to support their assertion, do not justify changes to our original disallowance.

Front Door Supervisors

In addition to the community technicians, there was a supervisor present on each shift. Although we requested the roster of supervisors who worked the front door during the three fiscal years ending June 30, 2019, BRC did not provide the rosters. Consequently, the information provided by BRC was insufficient for us to determine a dollar value disallowance for the individuals who supervised the community technicians who staffed the front door entrance operations. However, based on the number of shifts, length of a shift, and paid time off allotted, we determined that it required at least six supervisors to cover the 8,760 hours for each of the three fiscal years ending June 30, 2019. Therefore, we determined from the number of community technicians on each shift and the 46.4% allocation (based on occupancy rates of the four client-based facilities in the 127-131 West 25th Street building) that 635 supervisory hours should be disallowed as well.

We recommend that DHS investigate this and recover the costs associated with the supervisory hours.

Other Shared Employees

We also found that compensation for four additional employees, totaling $1,504,397, was overallocated to the JRR program. Of this amount, $117,532 was allocated to the JRR contract. We reviewed BRC's organization charts and interviewed BRC officials and determined these four employees also worked for other BRC programs; however, BRC did not allocate these employee salaries to all the programs. For example, BRC's Vice President of Homeless Services' salary was allocated to six programs; however, we determined that he provided services to eight programs. As a result, 7.5% of his salary was overallocated to JRR.

We recommend that DHS recover $75,606 ($60,916 in salary and $14,690 in fringe benefits) that was overallocated to the JRR contract.

Inadequately Supported Compensation

The Fiscal Manual, Cost Manual, and the JRR contract require expenditures claimed be supported, appropriate necessary, and directly related to services under the JRR contract. Expenses must also be reasonable for the services provided and comply with the provider's established written policy or, in the absence of a written policy, established standard operating practices. The JRR contract states that BRC shall maintain proper and sufficient evidence, vouchers, bills, and receipts showing the propriety and necessity of any and all expenditures. Expenses not incurred in the performance of the service program are not allowable. In addition, the Fiscal Manual requires that BRC maintain all supporting documentation, such as payroll ledgers, labor distribution reports, and time records.

For the three fiscal years ended June 30, 2019, BRC claimed approximately $12.2 million in personal service costs related to the JRR contract. To determine whether these expenses complied with the requirements for reimbursement, we judgmentally selected four samples totaling $618,655 in personal service expenses. We compared the amounts claimed on the JRR invoices to the underlying records, such as payroll registers, labor distribution reports, employee personnel folders, time records, and cost allocation methodologies, and identified $156,838 in claimed personal service costs that were not adequately supported, as follows:

- $98,619 ($79,154 in salaries and $19,465 in fringe benefits) for 21 employees for whom time records were either not provided or the claimed number of hours exceeded the hours indicated on the time records.
- $56,066 ($44,785 in salaries and $11,281 in fringe benefits) for two individuals lacking evidence that they worked for JRR. We found that one community technician, for whom BRC claimed $44,329 in salary, was not listed on the JRR staff roster. BRC officials advised us that this employee was listed on the staff roster under another name because of a name change; however, payroll

records did not reflect any name change for this individual. BRC also claimed $456 for the salary of another employee who appeared to work for another BRC program. BRC officials stated that the employee was loaned to the JRR program; however, they did not provide any documentation to support this.

- $2,153 ($1,720 in salaries and $433 in fringe benefits) for one individual lacking support for the amount claimed.

We recommend that DHS recover $156,838 ($125,659 in salaries and $31,179 in related fringe benefits) in expenses that were not in compliance with the requirements.

Ineligible Costs

Both the Fiscal Manual and Cost Manual state that fines, penalties, damages, and other settlements are not reimbursable. According to the 2019 Fiscal Manual, bonuses are not allowed. According to the Cost Manual, claimed costs must be reasonable and necessary for the performance of the contract. We determined that $20,136 in compensation expenses for fiscal year 2019 were non-allowable as follows:

- $12,212 ($9,755 salary and $2,457 in fringe benefits) in a bonus claimed as salary for one employee during fiscal year 2018-19. BRC officials advised us that they were not aware that bonuses were not allowable.
- $7,029 ($5,615 in salary and $1,414 in fringe benefits) in settlement agreement expenses (e.g., compensatory damages, attorney fees) related to the wrongful termination of an employee.
- $895 ($715 in salary and $180 in fringe benefits) for one employee who did not work for the JRR program. BRC officials stated that this resulted from an expense coding error.

We recommend that DHS recover $20,136 ($16,085 in salaries and $4,051 in related fringe benefits) for costs that were not in compliance with the Fiscal Manual and Cost Manual.

Other Than Personal Service Costs

OTPS costs include expenses other than salaries and fringe benefits, such as supplies, equipment, utilities, and contractual services. The Fiscal Manual, Cost Manual, and contract require that claimed expenditures be supported, appropriate, necessary, and directly related to services under the JRR contract. Supporting documentation can include proof of payment, invoices, service contracts, approved allocation methodologies, inventory records, and insurance policies. For the three fiscal years ended June 30, 2019, BRC reported approximately $9.9 million in OTPS expenses for the JRR contract. We identified $831,772 in OTPS costs that were not in compliance with the Fiscal Manual, Cost Manual, and contract requirements.

Excessive Rent, Utilities, and Insurance Costs

The Fiscal Manual prescribes methodologies for allocating shared expenses among programs and requires providers to specify and obtain approval for the method used. The methodology must be reasonable, consistent, and auditable. Further, the 2018 and 2019 Fiscal Manuals state that DHS reserves the right to withhold or recoup any payments to the provider for allocated costs in the event that DHS determines that the cost allocation plan is unsatisfactory or that such allocated costs have been incorrectly determined, are not allowable, or are not properly allocable pursuant to the contract. Additionally, the JRR contract gives DHS the right to require and approve a cost allocation methodology that fairly and accurately reflects the actual allocable share of expenses attributable to the operation of two or more programs. The Cost Manual states that claimed costs must be reasonable and necessary for the performance of the contract and adequately documented.

As stated earlier in our report, JRR occupied space in a building leased by BRC. This building was also occupied by other BRC entities, including BRC's Administrative, Human Resources, Food Service Departments (kitchen and dining room), Reception Center, Transit Homeless Outreach, Chemical Dependency Crisis Center, and the Fred Cooper Substance Abuse Services Center. In addition, BRC sublet part of this building as retail space. During the three fiscal years ended June 30, 2019, BRC used allocation methodologies with varying square footage amounts to allocate shared rent, utilities, and insurance expenses to the JRR contract. We identified $683,946 in excessive rent, utility, and insurance expenses that were charged to the JRR contract.

Rent

During the three fiscal years ended June 30, 2019, BRC paid $12,734,440 in rent and allocated $5,374,740 to the JRR program based on square footage. To determine whether the square footage figure was accurate, we and representatives from both BRC and DHS measured the square footage of each floor of the West 25th Street building. All parties agreed on the square footage attributable to each program and service cost centers in the building. We determined that BRC used incorrect square footage figures in its calculations. Using the correct square footage figures, we determined that BRC overallocated $525,290 in rent expenses to the JRR program for the three fiscal years ended June 30, 2019.

Utilities

For the three fiscal years ended June 30, 2019, BRC allocated $625,240 in utilities expenses to the JRR contract using two different allocation rates. Both allocation rates were based on a weighted average three-factor scale composed of the number of clients served, hours of operation, and square footage. However, the rates differed because of inconsistencies in the square footage and the number of clients used in the calculations. For example, Transit Homeless Outreach used a total of one client for one allocation calculation and 176 clients for another calculation. In addition, neither calculation allocated expenses to the food service cost center or the sub-leased space.

We recalculated the allocation rate applicable to the JRR contract as 29.8% using the corrected square footage figures determined from our measurements of the West 25th Street building and the occupancy rates provided by BRC for the programs and cost centers housed therein (including the food service cost center and the sub-leased space). Using this percentage, we determined that BRC overallocated $120,113 in utility expenses for the three fiscal years ended June 30, 2019.

Insurance

For the three fiscal years ended June 30, 2019, BRC allocated $213,787 in facility insurance expenses to the JRR contract using the same weighted average formula it used to allocate utilities. We reviewed the insurance allocations and substituted the corrected square footage figures and number of clients in the insurance allocation methodology and determined that $19,036 in expenses were overallocated to the JRR contract. Additionally, we identified another $19,507 in insurance-related expenses that were not reimbursable as follows:

- $10,165 in insurance expenses not related to the JRR program.
- $9,342 in insurance expenses not supported by insurance policies.

We recommend that DHS recover $683,946 in excessive rent ($525,290), utility ($120,113), and insurance expenses ($38,543) charged to the JRR contract.

Overallocated and Non-Reimbursable Expenses

According to the Cost Manual, claimed costs must be adequately documented and conform to any contractual limitations or exclusions, and be reasonable and necessary for the performance of the contract, consistent with Generally Accepted Accounting Principles. The Fiscal Manual states that claimed costs must be supported and that providers must receive prior DHS approval before undertaking construction, renovations, repairs, or other work that would not qualify as normal maintenance for projects that exceed $5,000 in non-City/State-owned facilities. It also states that the provider shall be responsible for maintaining inventory procedures for office and program supplies and allows depreciation on a straight-line basis for leasehold improvements for a period of 5-15 years or the duration of the lease agreement. Notwithstanding, DHS officials advised us that depreciation is not allowable. Additionally, the Fiscal Manual and the JRR contract state that inventory records are required.

To determine whether BRC was in compliance with the Fiscal and Cost Manuals, we selected three judgmental samples for the three fiscal years ended June 30, 2019, including 69 items totaling $1,729,465. We reviewed the general ledger, invoices, allocation methodologies, and underlying records and identified $68,424 in expenses that were not in compliance with the Fiscal and Cost Manuals as follows:

- $40,484 in client supplies and office supplies that lacked required inventory records and procedures ($39,211) or that were overallocated ($1,273). Without inventory records, there is no assurance that supplies were not wasted or used for personal or non-program-related purposes. BRC officials stated that they were not required to maintain these records and procedures. However, the Fiscal Manual and the JRR contract explicitly state that inventory records are required.
- $18,532 in capital expenses that BRC claimed as routine maintenance and repair expenses. BRC contracted with a vendor in 2015 to furnish and install a new industrial combustion burner in the boiler for the West 25th Street building for $99,500. JRR was allocated $18,532 of the final payment of $49,750. Additionally, BRC did not obtain prior DHS approval, as required.
- $7,291 in overallocated ($7,251) and unsupported ($40) maintenance and repair expenses.
- $1,000 in insurance deductible expenses related to an automobile accident. BRC could not provide a police report or any records to show that the vehicle was exclusively used by JRR.
- $570 in office supplies for which BRC could not provide a complete invoice.
- $547 for program supplies that were never delivered. According to documentation (e.g., packing slips, invoices), certain purchases were not delivered and were, in fact, back ordered. BRC could not provide us with any documentation to demonstrate the products were eventually delivered.

We recommend that DHS recover $68,424 in expenses that were not in compliance with the Fiscal and Cost Manuals.

Contracted Services Costs

Contracted services costs are those costs incurred in procuring professional and technical skills to complete specific tasks or projects that cannot be accomplished by the provider's regular staff. The Cost Manual states that claimed costs must be reasonable and necessary for the performance of the contract, adequately documented, conform to any contractual limitations or exclusions, and be consistent with Generally Accepted Accounting Principles. The JRR contract also states that "no expenditures shall be made by the contractor with funds provided under the agreement except those properly incurred pursuant to and during the performance of the agreement." The Fiscal Manual prescribes methodologies for allocating shared expenses among programs and requires the providers to specify and obtain approval for the method used. The methodology must be reasonable, consistent, and auditable. In addition, the Fiscal Manual prescribes the subcontractor's approval process, which requires subcontractors be listed in the City's Payee Information Portal and that the provider identify the subcontractor in the budget and invoice process. In addition, for subcontractors with aggregate contracts exceeding $20,000, the subcontractor must be prequalified in the Health and Human Services Accelerator, an online system designed to improve the City's contracting process. DHS approves the subcontractor in the Payee Information Portal or in written communication with the contractor, and the provider should not engage a subcontractor without DHS' prior approval. Further, the Fiscal Manual identifies contracts, time sheets, and bids as backup documentation to support OTPS expenses.

During the audit period, BRC reported $667,120 in contracted services costs. We selected three judgmental samples for the three fiscal years ended June 30, 2019, which included eight items for $165,128. We reviewed the invoices, service contracts, time records, and allocation methodologies and requested competitive bids and DHS' subcontractor approvals and identified $33,076 in costs for contracted services that were unsupported, improperly allocated, or non-allowable as follows:

- $21,632 in computer/information technology expenses that were overallocated ($15,804) and unsupported ($5,828). Additionally, BRC could not provide the service agreements or the required procurement pre-qualifications for two vendors.
- $6,320 in unsupported compensation and expenses related to internships. BRC's Horizon Workforce Program recruited and placed BRC clients within BRC for internship opportunities. However, BRC could not provide any documentation (e.g., time records) to support these and other related expenses.
- $2,107 in unsupported ($1,936) and overallocated ($171) contracted services expenses paid to a security guard company. In addition, BRC could not provide the vendor's service contract or the competitive bids associated with the vendor's subcontractor or sub-subcontractor.
- $1,418 in unsupported temporary employee expenses. BRC could not provide time records to support the employee hours worked.
- $1,217 in unsupported expenses related to an invoice that included contracted maintenance expenses, community technicians, and health care employees.
- $382 in overallocated architectural service expenses for the West 25th Street building.

We recommend that DHS recover $33,076 in expenses for contracted services that were unsupported, improperly allocated, or non-allowable.

Ineligible Expenses

The Cost Manual states that fines, penalties, damages, and other settlements are not allowable expenses. The Fiscal Manual states that claimed costs must be supported. The 2018 and 2019 Fiscal Manuals also state that entertainment costs that include lunches, dinner, or staff parties; personal expenses such as gift certificates to staff and vendors, flowers, or parties for departing staff; and fines and penalties are non-allowable OTPS expenses. In addition, DHS officials confirmed that it does not pay for fines, penalties and/or violations. We identified $20,407 in ineligible expenses that were charged to the JRR contract.

Penalties and Fines

We identified $12,772 in non-allowable penalties, fines, and violations as follows:

- $6,191 paid to the City Criminal Court;
- 3,825 in fines and/or penalties paid to the City Department of Finance;
- $2,343 in building violations paid to the City Department of Buildings;
- $398 paid to the Office of Administrative Trials and Hearings; and
- $15 in finance charges related to late payments.

We also determined that a majority of these expenses were inappropriately claimed as routine OTPS expenses. For example, office supply expenses during fiscal year 2018 included City Criminal Court charges, City Department of Buildings violations, and a City Finance Commissioner fine. Consequently, these were difficult to identify because they were not classified as fines, penalties, and violations on the general ledger (examiners determination).

Entertainment Costs

We identified $7,635 in non-allowable/unsupported entertainment costs as follows:

- $4,982 in entertainment expenses claimed as client activities, including $3,482 for AMC Theaters and $1,500 for Wendy's fast-food restaurant. BRC did not provide any invoices to support these expenses or usage logs for $1,467. We reviewed the usage logs provided and determined that $1,569 of these expenses were related to staff appreciation, and $522 was non-program-related.
- $2,653 in expenses claimed as staff training and recruitment expenses. We determined the expenses were for a New York City Skyline cruise for 450 guests. The total cost of the event was $36,510 and included a premium bar ($18,900), dinner ($10,971), and additional fees ($6,639). Of this amount, BRC allocated $2,653 to JRR. We asked BRC officials whether the remaining costs were allocated to other contracts they had with the City; however, they did not respond.

We recommend that DHS recover the $20,407 ($12,772 + $7,635) in expenses that were not allowable. Additionally, we recommend that DHS determine whether BRC allocated the remaining New York City Skyline cruise expenses to the other contracts it has with DHS.

MetroCard Costs

The Fiscal Manual, Cost Manual, and contract require that claimed expenditures be supported, appropriate, necessary, and directly related to services under the JRR contract. The Fiscal Manual allows providers to claim client travel expenses for operations and support. During the audit period, BRC purchased MetroCards for JRR clients for travel within the City's five boroughs and charged these expenses to the JRR contract as client travel expenses. To determine whether the transactions were adequately supported, we selected judgmental samples of five transactions totaling $20,625 and identified $13,200 in expenses that did not comply with requirements.

BRC could not provide invoices for three transactions totaling $13,200 as well as the MetroCard usage logs for one of these transactions. BRC maintains the usage logs to support requests to purchase new MetroCards. However, these logs did not include the MetroCard serial numbers, making them inadequate for reconciling the issued cards to the purchases made. We also determined that MetroCards issued to BRC staff members were claimed as client travel. These costs should have been classified as staff transportation.

We recommend that DHS recover $13,200 in MetroCard costs that were not in compliance with the Fiscal Manual, Cost Manual, and the JRR contract.

Credit Card Costs

The Fiscal Manual, Cost Manual, and contract require that claimed expenditures be supported, appropriate, necessary, and directly related to services under the JRR contract. The 2018 and 2019 Fiscal Manuals also state that holiday party expenses are not allowable.

During the three fiscal years ended June 30, 2019, BRC reported $60,095 in credit card costs. We selected judgmental samples of $21,662 of these costs, and identified $7,435 that was not in compliance with the Fiscal Manual as follows:

- $2,268 in insufficiently documented supplies. Although BRC provided three invoices, totaling $4,345, it could not specify how the $2,268 in expenses were derived.
- $2,240 in legionella bacteria testing for the West 25th Street building. The cost of testing should have been allocated to all programs in the building; however, the full cost was charged to JRR.
- $1,091 in unsupported medical supplies, professional fees, postage, and maintenance expenses.
- $897 in job advertisement expenses that were insufficiently documented, including $547 for a maintenance supervisor (multi-program site). The advertisement indicated the expense was related to multiple programs; however, 100% was charged to JRR. Additionally, another job advertisement ($350) did not indicate the position solicited or whether it was related to JRR.

- $517 in vehicle and maintenance contract expenses charged to JRR and other BRC programs. BRC could not provide an allocation methodology for these expenses.
- $422 in ineligible holiday party expenses.

We recommend that DHS recover $7,435 in credit card costs that were not in compliance with the Fiscal Manual, Cost Manual, and JRR contract.

Petty Cash Costs

Claimed expenditures must be supported, appropriate, necessary, and directly related to services under the JRR contract. In addition, the 2018 and 2019 Fiscal Manuals explicitly state that personal expenses such as personal travel, gift certificates to staff, and holiday party expenses are not allowable. Further, for all allocated costs, the provider must specify the allocation methodology used and indicate the method used on the Allocation Methodology Worksheet. Additionally, the cost allocation methodology should be reasonable, consistent, and auditable.

During our audit period, BRC had a petty cash fund for the JRR program maintained by the JRR Program Director. During the three fiscal years ended June 30, 2019, BRC reported $25,371 in petty cash expenses. We selected judgmental samples of $5,608 and identified $4,084 in unsupported, improperly allocated, or non-allowable petty cash costs as follows:

- $2,090 in unsupported and improperly allocated expenses including:
  - $1,456 in expenses, including $556 in money orders for which BRC could not provide invoices to support the petty cash purchases;
  - $414 in expenses benefiting multiple programs for which BRC could not provide an allocation methodology; and
  - $220 in other miscellaneous expenses, including $104 in prescription drug expenses, $95 for airline baggage fees, and $21 in illegible receipts charged to program supplies.
- $1,994 in non-allowable expenses including:
  - $809 in holiday party expenses;
  - $547 in staff appreciation expenses, including gift cards and meal reimbursements;
  - $472 in personal late-night cab fares for the JRR Program Director; and
  - $166 in clients' rent payments.

Additionally, we determined that BRC has a significant control design deficiency in its petty cash process due to improper segregation of duties over petty cash. For example, the JRR Program Director had sole access, control, and reimbursement authority over petty cash funds. In fact, nine of the 10 sampled petty cash purchases in fiscal year 2019 were made by the Program Director. Further, five of the nine transactions, totaling $866, were non-allowable. In addition, two of the nine transactions, totaling $171, were unsupported. Moreover, the JRR Program Director was able to reimburse herself for personal cab rides home from work.

We recommend that DHS recover $4,084 in petty cash expenses that were not in compliance with the Fiscal Manual, Cost Manual, and JRR contract.

Prepared Meals

The Fiscal Manual states that raw food and food service expenses claims should be based on the number of clients served. The 2018 and 2019 Fiscal Manual also state that the contractor is responsible for maintaining inventory procedures for food expenses. The JRR contract requires BRC to provide three meals daily to JRR clients, in compliance with the New York State Office of Temporary and Disability Assistance and the City's laws, rules, regulations, and codes relating to the provision of food services, and to maintain an inventory of food purchases and consumption. BRC is responsible for securing food and must bear the cost of any food losses. During the three fiscal years ended June 30, 2019, BRC allocated $1,388,671 in food expenses to the JRR contract based on expected food consumption. We selected three judgmental samples totaling $334,657 in food expenses for the three fiscal years ended June 30, 2019 and reviewed the invoices, allocation methodology, and the occupancy for the programs serviced by BRC's West 25th Street kitchen. We identified $1,200 in expenses not related to JRR, including $738 in food purchases and $462 for salaries.

We also determined that BRC did not, as contractually required, maintain inventory records of the food items purchased and the number of meals prepared and served. BRC officials stated that, twice weekly, they order food items by visually inspecting which supplies are low. They prepare the number of meals daily based on an estimate of the number of meals required and refrigerate leftover meals for use the following day and on weekends. The absence of inventory records prevented the audit team from determining whether there was any food waste or loss.

We recommend that DHS disallow the $1,200 in overallocated and non-program food service expenses. Additionally, we recommend that DHS ensure that BRC complies with the contract.

Indirect Costs

Indirect costs are based on fixed rates applied to direct costs claimed. The Fiscal Manual permits service providers to claim indirect costs. BRC received a fixed percentage of the total direct expenses, except rent, as an indirect cost. Consequently, any direct expenses recommended for recovery result in an indirect expense disallowance.

We determined that $61,287 in indirect costs should be recovered due to the non-allowable charges identified in our report and the JRR indirect rates for the three fiscal years ended June 30, 2019 (see following table).

Indirect Costs for Three Fiscal Years Ended June 30, 2019

Fiscal Year	Unsupported, Incorrectly Allocated, and Non-Allowable Amount	Indirect Rate	Disallowed Indirect Cost
2016-17	$292,061	6.52%	$19,042
2017-18	214,238	7.62	16,325
2018-19	335,323	7.73	25,920
Totals	**$841,622**		**$61,287**

DHS Oversight of Provider Contract Compliance

DHS is responsible for monitoring the fiscal activities of all DHS-funded providers to ensure that government resources are used only for expenses that are allowable, supported, and program appropriate. BRC's contract requires it to maintain proper and sufficient evidence, including vouchers, bills, and receipts, showing the propriety and necessity of all expenditures in the monthly invoices. The Fiscal Manual requires providers to report the actual expenses they paid for during the month of the invoice (i.e., cash basis of accounting). It also outlines important oversight tasks for DHS to ensure providers are in compliance with their contracts. These tasks include provider expenditure reviews and timely closeout of year-end expenses.

We determined that DHS did not adequately monitor BRC's fiscal activities and that DHS' internal controls were not sufficient to detect unallowable and unsupported expenses claimed by BRC and prevent payment of these expenses.

DHS Expenditure Reviews

To ensure expenses are appropriate, the Fiscal Manual requires DHS to review a provider's line item expenses. Specifically, the 2018 and 2019 Fiscal Manuals require DHS to review three random OTPS line-item expenses claimed on a provider's monthly invoices as well as each reported line-item expense by the end of each fiscal year. The 2017 Fiscal Manual states that back-up documentation will be requested for selected line items, per the discretion of DHS Programs staff. Examples of back-up documentation include: receipts; provider contracts and subcontracts; inventory maintenance procedures; and allocation methodologies, including the supporting documents for the methodologies and DHS' approval of them. DHS must also ensure that all salaries claimed are within the budget.

Based on our examination of 36 monthly invoices (OTPS items), we determined that DHS did not review any line items for 18 of the monthly invoices (50%) submitted by BRC. Additionally, we determined that DHS reviewed only approximately 3% of the line-item expenses submitted in fiscal years 2017-18 and 12% in fiscal year 2018-19 – far less than the 100% it was required to review. Moreover, when DHS did review line-item expenses, it was not able to detect non-reimbursable costs. For example, we found that DHS was unable to identify $12,772 in ineligible fines and penalties although the Fiscal Manual specifically states that these expenses are not reimbursable.

We also noted that DHS' expenditure reviews did not result in identifying/correcting these Fiscal Manual non-compliance issues as follows:

- The Fiscal Manual requires that the cash method of accounting be used; however, BRC used the accrual method of accounting. DHS officials advised us they were in the process of amending the Fiscal Manual to permit the accrual method of accounting.
- The 2018 and 2019 Fiscal Manuals require DHS to review and approve allocation methodologies; however, we found that DHS did not verify that BRC maintained allocation methodologies to support allocated expenses. For example, DHS approved allocated rent expenses without verifying the square footage calculations. Instead, it only verified that the expenses were within the budget. As discussed earlier in this report, we determined that BRC did not maintain accurate/adequate allocation methodologies to support $705,962 in reported expenses.
- The Fiscal Manual prescribes an approval process for subcontractors hired on Health and Human Services contracts, such as the JRR contract. This approval process requires the contractor to list the subcontractor in the City's Payee Information Portal, identify the subcontractor through the budget and invoice process, obtain DHS' pre-approval for subcontracts exceeding $20,000, and share a copy of the contract/agreement with DHS. We reviewed the JRR general ledgers for the three fiscal years ended June 30, 2019 and found that $581,699 in sub-subcontractor expenses were reported as subcontractor expenses, without pre-approval. Consequently, DHS' approval and monitoring process was circumvented.

Year-End Closeout

The Fiscal Manual requires providers, such as BRC, to submit a final invoice to reflect their final spending of the fiscal year. If needed, the provider must submit a final budget modification. Once approved, providers should submit their final invoice against that approved budget. The final budget modification and the June invoice must be submitted no later than September 1 or the next business day if September 1 falls on a weekend. Delays in submitting the closeout invoice may result in delays in payments for the following fiscal year. We found that the 2019 fiscal year-end closeout was still outstanding and that the 2017 and 2018 fiscal year-end closeouts were not timely as follows:

- The 2016-17 fiscal year-end closeout was approved on November 22, 2017 – 82 days overdue.

- The 2017-18 fiscal year-end closeout was approved on October 27, 2020 – 787 days overdue.
- As of July 2021, DHS had still not competed the year-end closeout for the 2018-19 fiscal year for the JRR contract – 690 days overdue and counting.

It is imperative that DHS follows its policy because a timely closeout would improve the quality of the DHS reviews and reduce problems associated with recovery of overpayments.

Recommendations

1. Review and recover, as appropriate, $1,428,199 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and JRR contract.
2. Investigate and recover the costs associated with front door supervisory hours, as appropriate.
3. Ensure that providers comply with their contractual requirements to retain sufficient documentation to support proper procurement and maintenance of required inventories.
4. Determine whether BRC allocated the remaining New York City Skyline cruise expenses to the other contracts it had with DHS.
5. Comply with existing internal policies and complete monthly expenditure reviews.
6. Ensure that providers use the cash method of accounting until policies are changed, and develop policies and procedures for authorizing changes to reporting methodology.
7. Review and approve all provider allocation methodologies.
8. Establish additional monitoring controls for the approval process for subcontractors.
9. Complete year-end closeouts on time.
10. Provide training to providers to ensure that they are aware of the reimbursement requirements.
11. Monitor the JRR contract to ensure that government resources are used only for expenses that are allowable, supported, and program appropriate.

Audit Scope, Objective, and Methodology

The audit objective was to determine whether DHS is effectively monitoring its contract with BRC to ensure reported costs are allowable, supported, and program related. The audit covered the period from July 1, 2016 through June 30, 2019.

To accomplish our objective and assess the relevant internal controls related to DHS' monitoring of expenses reported by BRC, we interviewed key personnel from DHS and BRC. To determine whether DHS staff complied with the JRR contract, Cost and Fiscal Manuals, and guidelines, we reconciled the year-end fiscal reports with BRC/JRR invoices and payroll. We selected judgmental samples of personal service, OTPS, and indirect expenses and examined JRR general ledgers, invoices, payment records, allocation methodologies, payroll records, personnel records, and other underlying records to determine whether the amounts claimed were reasonable, appropriate, and reimbursable. We also measured BRC's West 25th Street building square footage applicable to JRR. For fiscal year 2019, we selected two judgmental samples of all expenses claimed. For personal services, we selected at least one employee for each reported position and for OTPS, we selected the highest amounts reported in each category of expenses. Based on our audit findings, we selected additional judgmental samples of high-risk expense categories for fiscal years 2017 through 2019. We selected our samples based on various factors identified in our initial review such as shared employees, non-JRR employees, and non-reimbursable expenses for personal services as well as excess allocations, non-reimbursable expenses, and undocumented expenses for OTPS. A judgmental sample 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 requested a representation letter from DHS and BRC in which management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during 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. 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.

We modified the wording in the draft representation letter provided to BRC to state that it had not made available all requested records, related data, and unrestricted access to persons deemed necessary to obtain audit evidence. However, BRC officials have not provided a signed representation letter in connection with this audit. As a result, we lack assurance from BRC officials that all relevant information was provided to us during the audit.

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 of it. 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. DSS officials also included an attachment with their response. This attachment is not included in this report. However, it has been retained on file at the Office of the State Comptroller.

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

DHS Oversight of Contract Expenditures of BRC
Recommended Cost Recoveries
Three Fiscal Years July 1, 2016 Through June 30, 2019

Recommended Cost Recoveries	2016-17	2017-18	2018-19	Totals
Personal Services	$208,484	$101,876	$224,780	**$535,140**
Other Than Personal Services	274,323	308,867	248,582	**$831,772**
Indirect Expenses	19,042	16,325	25,920	**$61,287**
Total Recommended Cost Recoveries	**$501,849**	**$427,068**	**$499,282**	**$1,428,199**

Agency Comments

Department of Social Services

Human Resources Administration

Department of Homeless Services

W-2-570
11/17

DSS Accountability Office

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December 2, 2021

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

Re: Agency Response to the Draft Audit Report of DSS Oversight of Contract Expenditures of Bowery Residents' Committee 2019-N-8

Dear Mr. Lynch,

We have received the draft report for the OSC Audit of DSS Oversight of Contract Expenditures of Bowery Residents' Committee (2019-N-8).

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 noted in the report. Please also see the DHS corrections to the square footage the auditors allocated to food, rent, utilities and insurance, as well as the chart which shows how often (meals per day) JRR uses the kitchen, compared to other programs in the building. We believe usage of the kitchen should be a factor in calculating the allocation of kitchen space to each program. In addition, please use our corrections to the auditors' allocations when it comes to the square footage allocated to DHS PD.

Comment 1

Comment 2

We would also like to point out that this audit occurred primarily during the COVID-19 pandemic, a time when both DHS and BRC (including JRR) were working rapidly to respond to the needs of our City and its most vulnerable inhabitants, successfully assisting thousands from the streets and subways into various forms of shelter. Staff were risking their own health to ensure the safety of others, while simultaneously responding to the demands of this audit. In addition, in order to ensure the safety of our residents, this provider was relocated to a hotel during this period. As such this was a time of great transition for both DHS and BRC.

OSC does not question whether these costs were incurred, or in most cases whether they were legitimate reimbursable expenses, but rather how they were allocated among the several publicly funded programs in the building. If the JRR program was given too much money, it stands to reason that the other programs in this building were under-allocated. DHS is committed to conducting a review of each finding to determine if this is the case. At the conclusion of this review DHS will determine the correct allocation to each program area and make adjustments accordingly.

Comment 3

Comment 4

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 would like to express our sincere appreciation 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 Victoria Arzu, Assistant Director of the DSS Bureau of Audit Coordination at 929-221-7067.

Thank you for your consideration.

Yours sincerely,

Christine Maloney

Christine Maloney
Deputy Commissioner, Office of Audit & Quality Assurance Services

Enclosures

Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee 2019-N-8

DHS Corrections to OSC preliminary draft calculations:

Food:

OSC's preliminary calculation only factored in capacity and not total meals served, which is a factor not only of capacity, but also number of meals served per day and number of days for which meals were prepared, which, as shown by the attached chart, varies by program. By OSC's calculation (capacity only) JRR meals were 195 of 805, or 24.2%. Using the more accurate calculation that factors in the number of meals and days served for each program, JRR meals were 585 of 1737, or 33.7%.

Comment 5

Rent:

The DHS PD square footage should not be allocated among all programs as the only reason DHS PD is on site is because of JRR. This is proven by the fact that, when the JRR program was the only 25th street program relocated to a hotel during COVID, the entire DHS PD went with them. All the other programs remained at 25th street but no DHS PD remained. As such 100% of that space, the full 1,098 square feet and the 588 allocated by OSC, should be assigned to the JRR. This is an undercount by OSC of 510 square feet.

Comment 6

In total then, the OSC under-allocated 716 square feet to the JRR (206 in the kitchen and 510 for DHS PD). Adding the 716 to the 27,096 square footage allocation with kitchen puts the actual square footage for JRR at 27, 812, or 38.37%, not 37.38%. This means that the rent charged to JRR should have been $4,886,205, not $4,760,496 as OSC calculated.

Comment 1

Utilities and Insurance:

The correct allocation of 38.37% must then replace the 37.38% elsewhere where this square footage allocation is applied, be it for building allocations or BRC-wide allocations. This includes allocations for utilities and insurance.

Comment 7

Program	Occupancy	Meals provided by 25th Food Services Department	Weighted Daily Food Rate
Reception Center	91	3 meals per day (21 of 21 meals weekly)	(91x21)/7 273
JRR	195	3 meals per day (21 of 21 meals weekly)	(195x21)/7 585
CDCC	28	3 meals per day (21 of 21 meals weekly)	(28x21)/7 84
SASC	50	Lunch weekdays (5 of 21 meals weekly except holidays)	(50x5)/7 36
BLVD*	99	Lunch and dinner daily (14 of 21 meals weekly)	(99x14)/7 198
BSH*	51	Lunch and dinner daily (14 of 21 meals weekly)	(51x14)/7 102
Glass Factory	43	Dinner nightly (7 of 21 meals weekly)	(43x7)/7 43
C.B.	31	Dinner Sunday only (1 of 21 meals weekly)	(31x1)/7 4
Lex SH*	42	Lunch and dinner daily (14 of 21 meals weekly)	(42x14)/7 84
The Palace*	115	Lunch and dinner daily (14 of 21 meals weekly)	(115x14)/7 230
119th St*	32	Lunch and dinner daily (14 of 21 meals weekly)	(32x14)/7 64
17 St (Hand-up SH)*	28	Lunch and dinner daily (14 of 21 meals weekly)	(17x14)/7 34
Total	**805**		**1737**

- Off-site shelter, safe haven and stabilization programs provide breakfast at the specific location.

By OSC preliminary calculation, JRR meals were 195/805 or 24.2%
Using the more accurate BRC calculation that factors in the number of meals and days served for each program, JRR meals were 585/1737 or 33.7%

Comment 5

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 1: Review and recover, as appropriate, $1,451,463 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and JRR contract.	Disagree The allocation does not take into account the square footage allocation referenced by BRC. BRC has provided DHS with calculations that allocate space differently. Additionally, OSC did not take into account documentation that was provided by BRC as it relates to staff. The methodology provided by BRC is a reasonable approach to allocation and would reduce the disallowance. Additionally, the $1.45 million includes recoveries that BRC would need to retroactively charge other DHS programs in the building. DHS will complete an analysis to determine a revised recovery amount that considers the above two concerns.	DHS Program-Adults DSS Finance	N/A Comment 8	
Recommendation 2: Investigate and recover the costs associated with front door supervisory hours, as appropriate.	Partially Agree	DHS Program-Adults DSS Finance	DHS will work with BRC to assess the entirety of front door spending, and to allocate costs to different programs as necessary. If after this comprehensive evaluation of front door	**June 2022**

1

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
			costs a recoupment is necessary, DHS will recoup the funds.	
Recommendation 3: Ensure that providers comply with their contractual requirements to retain sufficient documentation to support proper procurement and maintenance of required inventories.	Partially Agree While it is critical that providers comply with all contractual requirements, DHS also notes that these requirements may change over time. When evaluating providers' compliance with documentation requirements, it is critical to apply the standards that were in effect for the period under consideration.	DHS Program-Adults	DHS and DSS monitor provider compliance with documentation requirements and other contractual obligations as a matter of course, including through use of third-party auditor firms. Comment 9	**Completed/ Ongoing**
Recommendation 4: Determine whether BRC allocated the remaining New York City Skyline cruise expenses to the other contracts it had with DHS.	Agree	DHS Program-Adults DHS Budgets DSS Finance	BRC will provide DHS with documentation on the full cost of the event and demonstrate how it was allocated in its books. Any costs attributable to DHS programs will be recouped.	**February 2022**

2

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 5: Comply with existing internal policies and complete monthly expenditure reviews.	Partially Agree As is the case with documentation requirements, compliance with internal policies and expenditure review standards are critical but must be evaluated based on the rules in place during the time period covered by the review.	DHS Program-Adults OPPT OPDI	DHS and DSS assess compliance with policies and invoice review procedures as a matter of course. Under the MOCS invoice review policy released in early calendar year 2021, BRC invoices are subject to post-payment review, and DHS follows that policy.	**Completed/ Ongoing** **See attached: Standard HHS Invoice Review Policy** Comment 10
Recommendation 6: Ensure that providers use the cash method of accounting until policies are changed, and develop policies and procedures for authorizing changes to reporting methodology.	Agree	DHS Program-Adults DHS Budget OPDI	The new Health and Human Services Invoice Review Policy is in effect as of January 1, 2021 and gives Providers the ability to invoice on an accrual basis with notification to DHS. Train Providers on MOCS procedure	**January 2021/Ongoing** **See attached: Standard HHS Invoice Review Policy** **February 2022/Ongoing**

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 7: Review and approve all provider allocation methodologies.	Agree	DHS Program-Adults DHS Budgets	DHS Fiscal Manual details acceptable allocation methodologies for various expenses. Numerous examples are detailed in the Fiscal Manual and the manual also notes that if a provider wants to deviate it must be approved by DHS. DHS reviews all allocations as a part of the annual budget submission.	**Current/ Ongoing** Comment 11
Recommendation 8: Establish additional monitoring controls for the approval process for subcontractors.	Agree	DHS Program-Adults ACCO	Providers must submit all subcontractors into Payee Information Portal (PIP) and Passport and must receive a signed 65A from the ACCO's office demonstrating they are approved to provide services. Providers are unable to invoice for	**Current/ Ongoing** Comment 12

4

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
			these services until an approval is obtained.	
Recommendation 9: Ensure that CPA compliance audits are performed as required.	Disagree The Agency is in compliance with the DHS fiscal manual, which states "Over a three year cycle it is expected that each Provider will be audited at least once." During the review period other contracts under the BRC umbrella were audited. Please note that the three year cycle of auditing providers is by provider, not by contract.	DHS Audit Services	N/A Comment 13	
Recommendation 10: Complete year-end closeouts on time.	Agree	DHS Program-Adults DHS Budget DSS Finance	Work with Providers to ensure that any final budget modifications are submitted on a timely basis and a final closeout invoice is submitted soon after the budget modification is reviewed and approved by DHS	**Current/ Ongoing**

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

Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Bowery Residents' Committee
Audit Number: 2019-N-8 **Date: December 2, 2021**

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 11: Provide training to providers to ensure that they are aware of the reimbursement requirements.	Agree	DHS Program-Adults OPDI OPPT	MOCS distributed the Standard Invoice Review Procedure to all providers. DSS developed a detailed training this year that is being rolled out to provider staff.	**February 2022/Ongoing**
Recommendation 12: Monitor the JRR contract to ensure that government resources are used only for expenses that are allowable, supported, and program appropriate.	Agree DHS monitors all contracts and spending on a regular basis. A key component of invoice review is confirming that funds have been spent on allowable purposes in accordance with program budget. DHS follows MOCS' most recent invoice review policy, which requires the agency to do post-payment review of expenditures. In addition, as noted above, DSS/DHS regularly audits providers, including BRC and the JRR program, to do a deeper dive into spending and program accountability.	DHS Program-Adults DSS Finance	Conduct post-payment review and if DHS determines that any funds were disbursed for ineligible costs, we will recoup. Conduct CPA 2022 audit	**June 2022** **June 2022**

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State Comptroller's Comments

1. We revised our report and removed $22,016 in rent allocation expenses based on the adjusted kitchen square footage.
2. We disagree. Our DHS PD (police department) allocation calculations are accurate. We allocated the DHS PD square footage exclusively to JRR. Refer to Comment 6.
3. DSS' comments are misleading. Our report details numerous instances of expenses that were not supported or were ineligible for reimbursement. For example, on page 8 of our report, we identified $156,838 in inadequately supported personal service expenses.
4. While it may be accurate that some of the expenses may be transferred to the other programs located in the building, this does not lessen the fact that DSS was not effectively monitoring the JRR contract.
5. We revised our report and removed $1,189 in overallocated prepared meal expenses.
6. DSS is mistaken. The 1,098 square feet that DSS identified comprises 666 square feet for the PD and 432 square feet for the 127th Street lobby. We did not allocate the PD square footage among the other programs; instead, our calculations allocated the square footage exclusively to JRR. We also correctly allocated the 432 square foot lobby space to the four facilities that use the 127th Street entrance – including JRR.
7. We disagree. Our utilities and insurance allocation percentages are accurate. We based our allocations on square footage, occupancy, and hours of operation – the same three factors BRC used in its allocation calculations. Additionally, the revised kitchen square footage reallocation does not affect the utilities and insurance allocations because our calculations used the square footage prior to the kitchen reallocation.
8. We disagree. We took all provided documentation into account. However, as stated on pages 6 and 7 of our report, BRC refused to provide us with the rosters for all community technicians and front door supervisors. Additionally, DHS did not verify that BRC maintained allocation documentation for their methodologies; therefore, we cannot understand how DSS can claim that the methodologies provided by BRC were reasonable. Refer to Comment 4.
9. We disagree. We applied the appropriate compliance documentation requirements (e.g., Cost Manual and Fiscal Manual) for each respective fiscal year that we reviewed.
10. DSS' comments are misleading. The Standard Health and Human Service Invoice Review Policy mentioned by DSS became effective January 1, 2021. Our audit covered the period July 1, 2016 through June 30, 2019, and none of the invoices we reviewed were submitted after January 1, 2021. Refer to Comment 9.
11. DSS' comments are misleading. During the audit fieldwork, DHS did not verify that BRC maintained allocation methodologies to support allocated expenses.
12. DSS' comments are misleading. During the audit fieldwork, DHS did not pre-approve $581,699 in sub-subcontractor expenses.
13. Based on additional documentation, we revised our report to remove the findings regarding CPA compliance audits.

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