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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 22, 2023

Molly Park
Acting Commissioner
New York City Department of Social Services
4 World Trade Center, 42nd Floor
New York, NY 10007

Re: Controls Over Capital Improvements
at City-Owned Homeless Shelters
Report 2022-F-28

Dear Acting Commissioner Park:

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 have followed up on the actions taken by officials of the New York City Department of Social Services to implement the recommendations contained in our audit report *Controls Over Capital Improvements at City-Owned Homeless Shelters* (Report [2018-N-3](#)).

Background, Scope, and Objective

Governed by a "right to shelter" mandate, New York City (City or NYC) provides temporary emergency shelter to every eligible person who requests services. The NYC Department of Homeless Services (DHS), an administrative unit of the NYC Department of Social Services (DSS), is the oversight authority responsible for providing transitional housing and services for eligible homeless families and individuals in the City and for fiscal oversight of the homeless shelters. DHS contracts with public and private entities in its mission to prevent homelessness when possible, provide temporary emergency shelter when needed, and help individuals and families transition into permanent housing. As of December 2022, there were 455 homeless shelters in the City, including 58 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 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' fiscal year 2023 capital budget totaled about \$73 million and included the costs of shelter renovations and equipment purchases. To be considered a capital project, a project must have

a minimum cost of \$50,000 and a useful life of five years or more. Examples of shelter capital projects are boiler upgrades 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 need for a capital project 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, before work (design and construction) is initiated. DHS' capital plan covers a period of 10 years; 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.

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.

Pursuant to the 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.

Our initial audit report, issued on August 25, 2020, found DHS lacked the necessary controls over City-owned homeless shelter capital improvement projects to ensure urgent-need projects are properly prioritized and brought to completion 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.

The objective of our follow-up was to assess the extent of implementation, as of January 5, 2023, of the four recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

DHS officials have not made sufficient progress in addressing the issues identified in our initial report. Of the report's four recommendations, one was partially implemented and three were not implemented.

Follow-Up Observations

Recommendation 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.*

Status – Partially Implemented

Agency Action – In their 180-day response to our initial report, DHS officials agreed that specific written policies and procedures should be developed, and stated they formed a work group to develop and establish specific written policies and procedures that would provide a written framework to support the planning process and project prioritization. Subsequently, DHS officials developed the Capital Projects Procedures Manual (Manual). We reviewed the Manual and determined it did not include the justification and criteria for project prioritization and specific requirements for review and retention of the monthly reports. Additionally, the Manual did not reference compliance with PPB Rules or the maintenance of procurement documentation.

DHS officials did not agree that the Manual is incomplete, but advised us they will update the Manual to include clarifying information regarding project prioritization and will also add a reference to the PPB Rules.

Recommendation 2

Standardize the monthly reporting format and develop a process to ensure that monthly reports are dated, reviewed, and approved.

Status – Not Implemented

Agency Action – In response to the initial audit report, DHS officials advised us that they standardized a reporting format to ensure that monthly capital project reports are reviewed, dated, and approved. For this follow-up, we selected a judgmental sample of six capital projects and requested the monthly reports for a one-year period for review. However, DHS officials only provided us with reports for two of the six capital projects, stating that the shared network folder containing the other reports was missing and they were unable to restore it. Based on our review of the two reports, we found that DHS actually kept aggregate (running) reports instead of individual monthly reports. We determined that both were not in a standardized format and did not include proof of review and approval. In addition, the reports did not contain detailed capital project data.

DHS officials advised us that they were unable to maintain the individual monthly reports for all capital projects due to staffing issues and that they were attempting to replace staff. Further, DHS officials stated that they found the aggregate reports, along with

day-to-day project updates, give the program leadership better controls than reliance on individual monthly reports. The aggregate report provides the project history, while the daily interactions provide live project updates. DHS officials told us that, when the team is fully staffed, they will reassess whether individual monthly reports can add relevant information.

Recommendation 3

Implement controls to ensure that capital project data in the Spreadsheet is accurate.

Status – Not Implemented

Agency Action – In response to our prior report, DHS officials stated that they would integrate a two-tiered review system and utilize direct data pulls from the City's Financial Management System (FMS) to enhance their review of data in the Capital Projects Status Spreadsheet (Spreadsheet) to reduce the chance of human error in the report. Spreadsheet accuracy would be maintained by coordinating all data with a download from FMS to reflect current capital project data. According to the Associate Commissioner of Support Services, it was their intention to have Project Managers report the data for the monthly reports to their Deputy, who would compile and review the data, which would then be reviewed by the Associate Commissioner of Support Services. It was also their intention to obtain budget reports from FMS and integrate them as a check. However, DHS officials told us the process of preparing and having multiple staff review the reports has been impacted by staffing issues within the Capital Unit, which currently has only one active Project Manager and one Space Analyst. DHS officials also advised us that they have personnel actions pending to replace these staff members. Additionally, DHS had planned on integrating the reporting system into the Enterprise Asset Management System (EAM); however, its IT unit has not yet completed the project.

DHS officials advised us that, in the interim, Project Managers meet with Facilities and Logistics management monthly to discuss the status of their project(s) and to update the Spreadsheet accordingly. However, when we compared the data in the Spreadsheet with the two reports previously provided, we found the data did not match the data in the reports for both capital projects.

Recommendation 4

Develop and implement a system for tracking the progress and costs of capital projects.

Status – Not Implemented

Agency Action – In response to the initial report, DHS officials partially agreed with this recommendation, stating that, although they had a system for tracking capital projects, an enhanced tracking system would be helpful. They further stated that, as part of a planned upgrade, the EAM would be enhanced and fully integrated with PASSPort – the City's new end-to-end digital procurement platform. DHS indicated this recommendation would be implemented in January 2022. At the time of our follow-up, however, we were advised that funding for the project was temporarily placed on hold due to the COVID-19 pandemic and financial concerns. The project has since resumed, but DHS was not able to provide an estimated implementation date.

Major contributors to this report were Keith Dickter, Tania Rodríguez, and Steven Townsend.

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

Very truly yours,

Stephen C. Lynch
Audit Manager

cc: Christine Maloney, NYC Department of Social Services
Doug Giuliano, Mayor's Office of Risk Management and Compliance