

New York City Department of Social Services

New York City Department of Homeless Services – Oversight of Contract Expenditures of Institute for Community Living, Inc.

Report 2020-N-4 | September 2022

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 Institute for Community Living, Inc. (ICL) 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 New York City (City) and for providing fiscal oversight of the homeless shelters. In March 2014, DHS contracted with ICL, a City-based not-for-profit organization, to provide temporary housing, case management, housing referrals, placement services, and on-site medical and mental health services for women with mental illness and co-morbid substance abuse disorders at their 200-bed Tillary Street Women's Shelter (Tillary) for the period from December 2013 to December 2021. The original contract for \$15.2 million was renewed twice and amended twice for a total of \$35.6 million during the 2015-16 to 2019-20 fiscal years to an aggregate cost of approximately \$50.8 million. During the 3 fiscal years ended June 30, 2019, ICL claimed \$24.5 million in reimbursable expenses for the contract.

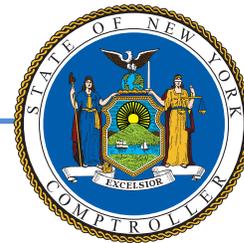
DHS is responsible for monitoring its contract with ICL to ensure reported costs are allowable, supported, and program related. To qualify for reimbursement, ICL's invoices/expenses must comply with DHS' Human Service Providers Fiscal Manual (Fiscal Manual), the New York City Health and Human Services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

Key Findings

DHS is not effectively monitoring its contract with ICL to ensure reported costs are allowable, supported, and program related. DHS did not complete required expenditure reviews or ensure that year-end closeouts were completed timely. Consequently, for the 3 fiscal years ended June 30, 2019, we identified \$2,376,462, or 9.7% of all reported costs, that did not comply with the requirements in the Fiscal Manual, Cost Manual, and contract, including: \$1,234,488 in personal service costs, \$925,932 in other than personal service costs, and \$216,042 in indirect costs. We also estimate that ICL may have discarded approximately 155,760 meals (valued at \$444,690) over the audit period.

Key Recommendations

- Review and recover, as appropriate, \$2,376,462 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract.
- Ensure that providers comply with their contractual requirements to retain sufficient documentation to support proper procurement and maintenance of required inventories.
- Review ICL's food service operations and ensure that actions are taken to reduce excessive food waste.
- Provide training to providers and DHS staff members to ensure that they are aware of the reimbursement requirements.



Office of the New York State Comptroller Division of State Government Accountability

September 16, 2022

Gary P. Jenkins
Commissioner
New York City Department of Social Services
150 Greenwich Street, 42nd Floor
New York, NY 10007

Dear Commissioner Jenkins:

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 *New York City Department of Homeless Services – Oversight of Contract Expenditures of Institute for Community Living, Inc.* 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
Cost Manual	New York City Health and Human Services Cost Policies and Procedures Manual	<i>Policy</i>
DHS	New York City Department of Homeless Services	<i>Auditee</i>
DSS	New York City Department of Social Services	<i>Auditee</i>
Fiscal Manual	DHS' Human Service Providers Fiscal Manual	<i>Policy</i>
FTE	Full-time equivalent	<i>Key Term</i>
ICL	Institute for Community Living, Inc.	<i>Service Provider</i>
OTPS	Other than personal services	<i>Key Term</i>
Tillary	Tillary Street Women's Shelter	<i>Facility</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 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. 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 March 2014, DHS contracted with Institute for Community Living, Inc. (ICL), a City-based not-for-profit organization, to provide temporary housing, case management, housing referrals, placement services, and on-site medical and mental health services for women with mental illness and co-morbid substance abuse disorders at their 200-bed Tillary Street Women's Shelter (Tillary) for the period from December 2013 to December 2021. The original contract for \$15.2 million was renewed and amended twice for a total of \$35.6 million during the 2015-16 to 2019-20 fiscal years for an aggregate cost of approximately of \$50.8 million. During the 3 fiscal years ending June 30, 2019, ICL operated four transitional homeless shelters and other residences that serviced 3,200 clients on a nightly basis. ICL's operations were funded primarily by governmental sources. In 2019, ICL held four contracts with DHS valued at approximately \$93.8 million.

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, ICL'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 Tillary 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 3 fiscal years ended June 30, 2019, ICL claimed \$24.5 million in reimbursable expenses for the contract, including \$8.8 million in personal services, \$14.3 million in other than personal services (OTPS), and \$1.4 million in indirect expenses.

Audit Findings and Recommendations

DHS utilizes the Fiscal Manual, the Cost Manual, and the contract to oversee ICL services provided at Tillary 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 3 fiscal years ended June 30, 2019, we identified \$2,376,462 in reported costs that did not comply with these requirements, indicating that a significant monitoring deficiency exists. This represents approximately 9.7% of all costs reported by ICL. These ineligible expenses include \$1,234,488 in personal service costs, \$925,932 in OTPS costs, and \$216,042 in indirect costs. We also estimate that ICL may have discarded approximately 155,760 meals (valued at \$444,690) over the audit period.

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 3 fiscal years ended June 30, 2019, ICL reported approximately \$8.8 million in personal service costs. We identified \$1,234,488 in costs that did not comply with the written guidance in the Fiscal Manual, Cost Manual, and contract.

Inadequately Supported Compensation

The Fiscal Manual, Cost Manual, and Tillary contract require expenditures claimed be supported, appropriate, necessary, and directly related to services under the Tillary 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 Tillary contract states that ICL 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 ICL maintain all supporting documentation such as payroll ledgers, labor distribution reports, and time records. We identified \$852,361 in compensation expenses that were not adequately supported.

For the 3 fiscal years ended June 30, 2019, ICL claimed approximately \$8.8 million in personal service costs related to the Tillary contract. To determine whether these expenses complied with the requirements for reimbursement, we judgmentally selected four samples from ICL's invoices, comprising 62 employees, for which ICL claimed \$852,361 in compensation. According to ICL's payroll registers, the sampled employees worked 29,477 hours. When we asked to see the sampled employee time records to support the work hours claimed, ICL officials stated the time and attendance records were lost in a malware attack in 2019. This

was confirmed by DHS officials. In lieu of time records, we asked ICL officials to provide alternative documents that would substantiate the number of hours worked. Although ICL officials provided us with onboarding letters and change of status forms, these documents did not contain sufficient support for the number of hours worked. Additionally, an independent audit of Tillary's fiscal year 2016-17 expenses, contracted through DSS' Office of Audit and Quality Assurance, questioned the allowability of compensation due to the absence of time records.

Consequently, we recommend that DHS recover \$852,361 (\$696,572 in salaries and \$155,789 in related fringe benefits) in expenses that were not in compliance with the requirements. Additionally, we recommend that DHS review the remaining ICL invoices and recover monies, as appropriate.

General Ledger Reconciliation – Personal Services

According to the Fiscal Manual, providers must submit monthly invoices to DHS in order to be reimbursed for their expenses. Supporting documentation for expenses includes invoices, service contracts, inventory, insurance policies, and general ledgers. Expenses recorded in the general ledger should equal or exceed expenses claimed. In addition, the Cost Manual and the contract require expenditures claimed be supported, appropriate, necessary, and directly related to services under the Tillary contract.

To determine whether the amounts claimed were adequately supported, we compared ICL's invoices to the amounts documented in ICL's general ledgers for fiscal years 2016-17 through 2018-19. We determined that \$157,337 in salaries were not supported in the 2018-19 general ledger.

We recommend that DHS recover \$190,095 (\$157,337 in salaries and \$32,758 in related fringe benefits) in compensation expenses that were not in compliance with the reimbursement requirements.

Excessive Allocation

The Cost Manual states that claimed costs must be reasonable and necessary for the performance of the contract and adequately documented. According to the Tillary 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. We identified \$117,065 in compensation expenses that were excessively allocated to the Tillary contract.

During our audit period, we reviewed Tillary's payroll records and determined that 16 employees, with aggregate compensation of \$765,868, were allocated to the Tillary contract. We asked ICL officials to provide us with their allocation methodologies,

related supporting documentation, and DHS' approval of the allocation methodologies. ICL officials advised us that their allocations were based on budgeted full-time equivalents (FTEs); however, they did not provide us with support for their FTE calculations. Additionally, we saw no evidence that DHS approved of their allocation methodology.

To determine a fair and reasonable amount that should have been allocated to the Tillary contract, we calculated the ratio value of Tillary's expenses to ICL's homeless shelter expenses. We determined that \$648,803 (85%) of the compensation for these employees should have been charged to the Tillary contract. We recommend that DHS recover \$117,065 (\$95,435 in salaries and \$21,630 in related fringe benefits) that was overallocated to the Tillary contract.

Bonus Compensation

According to the 2018 and 2019 Fiscal Manuals, bonuses are not allowed. While the 2017 Fiscal Manual does not explicitly state that bonuses are non-reimbursable, it does state that there are to be "no entries" in the bonus field. During our audit period, we determined that ICL paid \$43,219 in bonus compensation for 50 employees.

We recommend that DHS recover \$43,219 (\$35,378 in salaries and \$7,841 in related fringe benefits) for costs that were not in compliance with the Fiscal Manual.

Non-Program-Related Employees

The Fiscal Manual, Cost Manual, and Tillary contract require expenditures claimed be supported, appropriate, necessary, and directly related to services under the Tillary contract. The contract states that ICL 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 ICL maintain all supporting documentation such as payroll ledgers, labor distribution reports, and time records.

In order to determine whether employees claimed by ICL provided services to the Tillary shelter, we selected a judgmental sample of 50 employees whose job descriptions, onboarding letters, and/or duties did not specify they worked for the Tillary shelter. We reviewed available documentation including payrolls, change of status forms, and termination letters, and found no evidence that 23 (46%) of these employees, with aggregate compensation totaling \$31,748, provided services to the Tillary shelter. The non-program-related employees consisted of 19 cooks (\$27,911) and four maintenance custodians (\$3,837).

We recommend that DHS recover \$31,748 (\$25,427 in salaries and \$6,321 in related fringe benefits) for costs that were not in compliance with the Fiscal Manual, Cost Manual, and contract.

Other Than Personal Service Costs

OTPS includes 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 Tillary contract. Supporting documentation can include proof of payment, invoices, service contracts, approved allocation methodologies, inventory records, and insurance policies. For the 3 fiscal years ended June 30, 2019, ICL reported approximately \$14.3 million in OTPS expenses for the Tillary contract. We identified \$925,932 in OTPS costs that were not in compliance with Fiscal Manual, Cost Manual, and contract requirements.

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 and adequately documented; conform to any contractual limitations or exclusions; and be consistent with Generally Accepted Accounting Principles. The Tillary contract states that the contractor must solicit and document written estimates for any payment or agreement of goods, supplies, or services for amounts in excess of \$25,000 or more to one person or entity over the course of a 1-year period. The Fiscal Manual identifies contracts, time records, and bids as backup documentation to support OTPS expenses.

During the audit period, ICL reported a total of \$3,162,646 in contracted security expenses (\$1,993,082) and prepared meals expenses (\$1,169,564). We selected four judgmental samples, totaling \$1,288,670, for the 3 fiscal years ended June 30, 2019. The samples included \$936,658 in security expenses and \$352,012 in prepared meals expenses. We reviewed invoices, service contracts, time records, food usage logs, and requested competitive bids. We identified \$517,540 in costs that were not in compliance with the reimbursement requirements, as follows:

- \$423,624 in security expenses, including:
 - \$394,916 for which no time records were provided.
 - \$23,790 for which there was inadequate proof of payment. The canceled checks did not identify the specific invoices that were paid.
 - \$4,918 for which the hours and names on the time records did not match the invoice.

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- \$93,916 in prepared meals expenses, including:
 - \$92,492 for meals that ICL could not account for. We determined that ICL purchased 267,883 meals during the audit period; however, food usage logs only accounted for 231,963 of the meals purchased (meals served plus meals discarded). Consequently, 35,920 meals were unaccounted for.
 - \$1,424 for which invoices and proof of payment were not provided.

In addition, we found that ICL did not competitively bid the security and prepared meals contracts. We recommend that DHS recover \$517,540 in contracted services expenses that did not meet the reimbursement requirements.

Inadequately Supported Expenses

The Fiscal Manual, Cost Manual, and Tillary contract require expenditures claimed be supported, appropriate necessary, and directly related to services under the Tillary contract. The Tillary contract states that the contractor shall retain proper and sufficient bills, vouchers, duplicate records, and documentation for any payments, expenditures, or refunds made to or received by the contractor in connection with the agreement. In addition, the 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. Further, it states that inventory records must be maintained for supplies and food purchased and consumed. The Fiscal Manual also states that the provider shall be responsible for maintaining inventory procedures for office and program supplies. It also requires maintenance service contracts and vehicle usage logs to support claimed expenses. 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. 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.

To determine whether ICL was in compliance with the requirements for reimbursement, we selected five judgmental samples, totaling \$3,020,269, for the 3 fiscal years ended June 30, 2019. We reviewed ICL's general ledgers, invoices, allocation methodologies, and underlying records, and identified \$333,225 in expenses that were not adequately supported, as follows:

- \$122,191 in supply expenses, including \$120,454 where ICL did not provide invoices and/or proof of payment, \$1,541 in unsupported allocations, and \$196 for lack of a maintenance service agreement. ICL also did not maintain inventory records for supplies. Without the inventory records, there is no assurance that supplies were consumed exclusively for Tillary's operations.

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- \$71,252 in utility expenses where ICL did not provide invoices and/or proof of payment, including \$47,962 in electricity, \$21,091 in bundled communications, and \$2,199 in heating oil expenses.
 - \$61,204 in liability insurance expenses for which ICL did not provide us with a copy of the policy. In addition, ICL could not support its allocation methodology.
 - \$51,826 in facility repairs and maintenance expenses where ICL did not provide invoices and/or proof of payment (\$24,839), missing maintenance service contracts (\$25,762), and expenses that were not supported by the general ledgers (\$1,225).
 - \$25,402 in motor vehicle expenses where ICL did not provide the insurance policy and allocation methodology details (\$16,160) and missing vehicle usage logs (\$9,242). Further, ICL did not provide invoices for \$3,407 of the \$9,242 in vehicle expenses.
 - \$1,350 in expenses claimed as “Other” for which invoices, proof of payment, and allocation methodologies were not provided.

We recommend that DHS recover \$333,225 in expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract.

General Ledger Reconciliation – OTPS

According to the Fiscal Manual, providers must submit monthly invoices to DHS in order to be reimbursed for their expenses. Supporting documentation for expenses includes invoices, service contracts, inventory, insurance policies, and general ledgers. Expenses recorded in the general ledger should equal or exceed expenses claimed. In addition, the Cost Manual and the contract require expenditures claimed be supported, appropriate necessary, and directly related to services under the Tillary contract.

To determine whether the amounts claimed were adequately supported, we compared ICL’s invoices to the amounts documented in ICL’s general ledgers for the 3 years ending June 30, 2019. We found five instances, totaling \$41,931, in which the amounts claimed on ICL’s invoices were higher than the amounts documented in the general ledgers, as follows:

- \$40,338 in water and sewer expenses; and
- \$1,593 in vehicle insurance expenses (\$847), staff training expenses (\$447), client transportation expenses (\$211), and postage expenses (\$88).

We recommend that DHS recover \$41,931 in expenses that were not in compliance with the Fiscal Manual.

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 providers may only invoice for actual services or goods delivered within the fiscal year. It also prescribes methodologies for allocating shared expenses among programs and requires the providers to specify and obtain approval for the method used. The methodologies must be reasonable, consistent, and auditable.

To determine whether ICL was in compliance with the Fiscal and Cost Manuals, we reviewed the previously noted five judgmental samples totaling \$3,020,269. We reviewed general ledgers, invoices, allocation methodologies, and underlying records, and identified \$17,159 in expenses that were not in compliance with the Fiscal and Cost Manuals, as follows:

- \$14,594 in water and sewer expenses applicable to fiscal year 2013-14. ICL is only allowed to invoice for actual services or goods delivered within the fiscal year.
- \$2,168 in non-program-related expenses, including \$2,036 in facility repairs and maintenance expenses and \$132 in non-program electricity expenses.
- \$397 in overallocated expenses, including \$201 in fuel oil and \$196 in facility repairs and maintenance expenses.

We recommend that DHS recover \$17,159 in expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract.

MetroCard Costs

The Fiscal Manual, Cost Manual, and contract require that claimed expenditures be supported, appropriate, necessary, and directly related to services under the Tillary contract. The Fiscal Manual allows providers to claim client travel expenses for operations and support. During the audit period, ICL purchased MetroCards for Tillary clients for travel within the City's five boroughs and charged these expenses to the Tillary contract as client travel expenses.

To determine whether the MetroCard transactions were adequately supported, we selected four judgmental samples of client travel expense transactions totaling \$12,298 and identified \$12,100 in expenses that did not comply with requirements. ICL could not provide invoices, proof of payment, or usage logs for \$12,100 in MetroCard expenses.

We recommend that DHS recover \$12,100 in expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract.

Petty Cash Expenses

Claimed expenditures must be supported, appropriate, necessary, and directly related to services under the Tillary contract. During our audit period, ICL had a petty cash fund for the Tillary program maintained by the Tillary Program Director. During the 3 fiscal years ended June 30, 2019, ICL reported \$7,254 in petty cash expenses.

We selected a judgmental sample of 36 petty cash transactions for \$3,935 from six line-item expenses: food and beverage, staff travel, meeting expense, client travel, postage, and program expense. We asked ICL to provide the support for these expenses; however, they did not provide the petty cash vouchers and supporting documents (e.g., invoices, proof of payment) to support the petty cash expenses claimed. In addition, we found another \$42 in client travel expenses, paid from the petty cash fund, that were not supported.

We recommend that DHS recover \$3,977 (\$3,935 + \$42) in expenses that were not in compliance with the reimbursement requirements.

Indirect Costs

Indirect costs are based on fixed rates applied to direct costs claimed. The Fiscal Manual permits service providers to claim indirect costs. ICL 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 \$216,042 in indirect costs should be recovered due to the non-allowable charges identified in our report and the Tillary indirect rates for the 3 fiscal years ended June 30, 2019 (as shown in the table below).

Indirect Costs for the Three Fiscal Years Ended June 30, 2019

Fiscal Year	Unsupported, Incorrectly Allocated, and Non-Allowable Amount	Indirect Rate	Disallowed Indirect Cost
2016-17	\$580,004	10%	\$58,000
2017-18	600,746	10%	60,075
2018-19	979,670	10%	97,967
Totals	\$2,160,420		\$216,042

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. ICL'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. 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 ICL's fiscal activities and that DHS' internal controls were not sufficient to detect unallowable and unsupported expenses claimed by ICL and to prevent paying for 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 and to review each reported line-item expense by the end of each fiscal year. The 2017 Fiscal Manual states that that backup documentation will be requested for selected line items, per the discretion of DHS Programs staff. Examples of backup 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 eight of the 36 monthly invoices (22%) submitted by ICL. Additionally, we determined that DHS reviewed only approximately 25% of the OTPS expenses in each of the 3 fiscal years – far less than the 100% it was required to review. Moreover, when DHS did review OTPS line-item expenses, it was not able to detect \$17,159 in non-reimbursable costs, including \$14,594 water and sewer expenses applicable to fiscal year 2013-14 and \$2,565 in non-program-related and overallocated expenses. We also noted that DHS' expenditure reviews did not result in identifying/correcting these Fiscal Manual and contract non-compliance issues, as follows:

- The 2018 and 2019 Fiscal Manuals require DHS to review and approve allocation methodologies; however, we found that DHS did not verify that ICL maintained allocation methodologies to support allocated expenses.
- The Tillary contract states that the contractor must solicit and document written estimates for any payment or agreement of goods, supplies, or services for amounts in excess of \$25,000 or more to one person or entity over the course of a 1-year period. Additionally, the Fiscal Manual identifies bid documents as backup documentation for contracted expenses. However, we determined that DHS did not verify that \$3,267,320 in contracted expenses were competitively bid. The contracts included \$1,993,082 in contracted security expenses, \$1,169,564 in prepared meals expenses, and \$104,674 in temporary staffing expenses.

Year-End Closeout

The Fiscal Manual requires providers, such as ICL, to submit a final invoice to reflect their spending for 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 January 18, 2018 – 139 days overdue.
- The 2017-18 fiscal year-end closeout was approved on May 11, 2022 – 1,348 days overdue.
- As of May 2022, DHS had still not completed the year-end closeout for the 2018-19 fiscal year for the Tillary contract – 997 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.

Excessive Meal Waste

The Tillary contract requires ICL to provide three meals daily to Tillary clients, in compliance with the 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. To accomplish this, ICL contracted with a vendor to supply ICL with prepared meals. The contract allows ICL to adjust the quantity of meals supplied for any given day as long as the vendor receives 3 days' advance notice – this flexibility allows ICL to ensure it does not order more meals than necessary. During the 3 fiscal years ended June 30, 2019, ICL purchased 471,999 meals totaling \$1,347,500.

ICL maintains food usage logs, which document the number of meals served and the number of meals discarded (unopened meals thrown away). To determine whether ICL was adequately managing the number of meals ordered, we requested the food usage logs for the 36-month audit period. However, ICL could only provide the food usage logs for 21 months (October 2017–June 2019). These logs show that, for the 21-month period, ICL purchased 267,883 meals costing a total of \$763,538. Of these, we determined that 89,154 meals (33%), valued at approximately \$255,717, were discarded. Projecting our calculations to the remaining 15 months of the audit period, we estimate that ICL may have discarded approximately 155,760 meals (valued at \$444,690) over the full 36-month audit period. Although the vendor's contract allows ICL to adjust the quantity of meals with 3 days' advance notice, ICL did not take advantage of this option.

DHS officials disagreed with our findings, asserting that ICL “did not accurately document additional servings of food, per client per meal. The staff mistakenly documented that each client obtained only one meal per mealtime.” We stand by our findings: At our two unannounced visits to Tillary shelter (on March 21, 2022 and April 6, 2022), we observed that food usage logs showed the additional meals being served to clients. On our April 6, 2022 visit, we observed garbage bags full of **unopened** discarded meals (see Figures 1–3). Notably, the excess unopened meal trays we observed in the trash on April 6 were discarded despite a “Use By” date of April 9, still being consumable (see Figures 1 and 2). During that same visit, we also observed employees providing clients with multiple meal servings at a time, including one client who was given five meals at once.

We also determined the internal controls were deficient as one employee, a housekeeper, can receive meals, serve meals, discard meals, and record the quantities related to each of these activities.

We recommend that DHS review ICL’s food service operations and ensure that actions are taken to reduce excessive food waste.

Other Internal Control Issues

The Fiscal Manual requires DHS to review the expenses submitted on service providers’ invoices. Specifically, DHS must approve the budgeted expenses annually and review the personal service expenses claimed. In addition, service providers are required to support fringe benefit claims exceeding 26% of the salaries claimed. During the 3 fiscal years ending June 30, 2019, ICL claimed \$1,576,010 in fringe benefits for the Tillary contract.

We reviewed ICL’s invoices and general ledger entries and interviewed DHS and ICL officials to determine whether the fringe benefits claimed were reimbursable. We found that DHS did not review ICL’s budgeted, invoiced, and actual closeout fringe benefits claims. DHS officials stated it is their policy not to ask service providers, such as ICL, to support budgeted or actual fringe benefits claims below or at the 26% threshold. When we asked DHS officials how they determined the fringe benefits expenses claimed were incurred and reimbursable, they stated they relied on the service providers’ attestation that the amounts claimed were incurred and accurate.

We recommend that DHS request and review supporting fringe benefits documentation, particularly at the closeout phase, to ensure the amounts claimed are accurate, incurred, and reimbursable.



Figure 1 – Garbage bag full of unopened discarded lunches



Figure 2 – Bagful of discarded lunch meals (tray shown was opened by auditors)



Figure 3 – Discarded breakfast meals

Recommendations

1. Review and recover, as appropriate, \$2,376,462 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract.
2. Ensure that providers comply with their contractual requirements to retain sufficient documentation to support proper procurement and maintenance of required inventories.
3. Comply with existing internal policies and complete monthly expenditure reviews.
4. Review and approve all provider allocation methodologies.
5. Ensure that ICL adheres to the competitive bidding procedures.
6. Complete year-end closeouts on time.
7. Review ICL's food service operations and ensure that actions are taken to reduce excessive food waste.
8. Request and review supporting fringe benefits documentation, particularly at the closeout phase, to ensure the amounts claimed are accurate, incurred, and reimbursable.
9. Provide training to providers and DHS staff members to ensure that they are aware of the reimbursement requirements.

Audit Scope, Objective, and Methodology

The audit objective was to determine whether DHS is effectively monitoring its contract with ICL 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 ICL, we interviewed key personnel from DHS and ICL. To determine whether DHS staff complied with the Tillary contract, Cost and Fiscal Manuals, and guidelines, we reconciled the year-end fiscal reports with ICL/Tillary invoices and payroll. We selected judgmental samples of personal service, OTPS, and indirect expenses and examined ICL's 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. 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-Tillary employees; non-reimbursable expenses for personal services; and excess allocations, non-reimbursable expenses, and undocumented OTPS expenses. 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 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.

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 in their entirety at the end of it. In their response, DSS officials agreed or partially agreed with all our recommendations. 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

**DHS Oversight of Contract Expenditures – Institute for Community Living, Inc.
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	\$368,544	\$309,405	\$556,539	\$1,234,488
Other Than Personal Services	211,460	291,341	423,131	925,932
Indirect Expenses	58,000	60,075	97,967	216,042
Total Recommended Cost Recoveries	\$638,004	\$660,821	\$1,077,637	\$2,376,462

Agency Comments



W-2-627
Rev. 03/22

DSS Accountability Office

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August 22, 2022

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 Institute for Community Living, Inc. 2020-N-4

Dear Mr. Lynch,

We have received the draft report for the OSC Audit of DSS Oversight of Contract Expenditures of Institute for Community Living (2020-N-4).

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.

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.

Sincerely,

Christine Maloney

Christine Maloney

Enclosures

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 Institute for Community Living, Inc.
Audit Number: 2020-N-4 Date: 8-22-2022

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 1: Review and recover, as appropriate, \$2,515,965 in reported expenses that were not in compliance with the Fiscal Manual, Cost Manual, and Tillary contract</p>	<p>Partially Agree DHS will complete a review and recover, as appropriate.</p>	<p>DHS Program-Adults DSS Finance</p>	<p>Review and recover accordingly. ICL recently submitted additional documents which need to be reviewed. Based on the documentation review, DSS will pursue recoupment of anything not substantiated.</p>	<p>11/30/22 <u>Comment 1</u></p>
<p>Recommendation 2: Ensure that providers comply with their contractual requirements to retain sufficient documentation to support proper procurement and maintenance of required inventories.</p>	<p>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 place.</p>	<p>DHS Program-Adults DSS Finance</p>	<p>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.</p>	<p>Ongoing <u>Comment 2</u></p>

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 Institute for Community Living, Inc.
Audit Number: 2020-N-4 Date: 8-22-2022

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 3: Comply with existing internal policies and complete monthly expenditure reviews.</p>	<p>Partially Agree As is the case with documentation requirements, compliance with internal policies and expenditure review standards is critical but must be evaluated based on the rules in place during the time period covered by the review. Based on the review process in place at the time (review of three (3) line items), deficiencies might not have been identified.</p>	<p>DHS Program- Adults DSS Finance</p>	<p>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, ICL invoices are subject to post-payment review, and DHS follows that policy. Training is available on an ongoing basis, and DHS and provider staff will be directed to refresher training as necessary, with new staff directed to the training as they are onboarded.</p>	<p>Ongoing <div style="border: 2px solid red; padding: 2px; display: inline-block;">Comment 3</div></p>
<p>Recommendation 4: Review and approve all provider allocation methodologies.</p>	<p>Agree</p>	<p>DHS Program- Adults DHS Budget DSS Finance</p>	<p>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</p>	<p>Ongoing</p>

**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 Institute for Community Living, Inc.
 Audit Number: 2020-N-4**

Date: 8-22-2022

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 5: Ensure that ICL adheres to the competitive bidding procedures.	Agree	DHS Office of Program Development & Implementation Office of Contracts	reviews all allocations as part of the annual budget submission. Develop training module which details appropriate methods of allocation.	3/31/23
		DHS Program- Adults DHS Budget	Work with ICL on preparing a procurement standard operating procedure that is consistent with the contract and fiscal manual. Conduct annual budget review for providers. This review will reiterate the agency's bidding procedures.	10/15/22 Ongoing

**NYC DEPARTMENT OF SOCIAL SERVICES
 OFFICE OF AUDIT SERVICES
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**Audit Name: Draft Audit Report on New York City's Department of Social Services Oversight of Contract Expenditures of Institute for Community Living, Inc.
 Audit Number: 2020-N-4**

Date: 8-22-2022

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 6: 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
Recommendation 7: Review ICL's food service operations and ensure that actions are taken to reduce excessive food waste.	Agree	DHS Program-Adults DHS Office of Program Development & Implementation	A Director's Memo highlighting important aspects of the existing Food Policy intended to prevent food waste will be sent out to providers in August 2022.	8/31/22

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 Institute for Community Living, Inc.
Audit Number: 2020-N-4 **Date:** 8-22-2022

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 8:</p> <p>Request and review supporting fringe benefits documentation, particularly at the closeout phase, to ensure that amounts claimed are accurate, incurred, and reimbursable.</p>	<p>Agree</p>	<p>DHS Budget DSS Finance</p>	<p>Continue to review fringe as a part of the budget review and approval process.</p>	<p>Ongoing</p>
<p>Recommendation 9:</p> <p>Provide training to providers and DHS staff members to ensure that they are aware of the reimbursement requirements.</p>	<p>Agree</p>	<p>DHS Program-Adults DHS Office of Program Development & Implementation DHS Budget DSS Finance</p>	<p>MOCS distributed the Standard Invoice Review Procedure to all providers. DSS developed a detailed training based on MOCS guidance that is available to provider staff. All appropriate DSS staff have been trained. Training is available on demand as a refresher for new staff or to onboard new staff.</p>	<p>Ongoing</p>

State Comptroller's Comments

1. Based on additional information, we revised our report and removed \$139,503 in recommended disallowances related to contracted services costs (\$126,821) and indirect costs (\$12,682).
2. We agree that requirements change over time. During our audit, we evaluated the providers' compliance with the documentation requirement standards that were in place at the time.
3. DSS' comment is misleading. While we agree that deficiencies may not have been identified based on the review process at the time, our audit determined that DHS did not always conduct the required review process.

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