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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

May 6, 2020

Mr. Steven Banks
Commissioner
New York City Department of Social Services
4 World Trade Center, 42nd Floor
New York, NY 10007

Re: Oversight of Selected Fiscal Aspects
of Homeless Shelter Services
Report 2019-F-54

Dear Commissioner Banks:

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 prior audit report, *Oversight of Selected Fiscal Aspects of Homeless Shelter Services* (Report [2016-N-1](#)).

Background, Scope, and Objective

Governed by a "right to shelter" mandate, New York City (City) provides temporary emergency shelter to every eligible person who requests services. The New York City Department of Homeless Services (DHS), an administrative unit of the New York City 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.

DHS classifies shelters into two basic categories: adult shelters (for single adults) and family shelters (for adult couples and families with children under 21). The majority of shelters are operated by private providers (for-profit and not-for-profit) through contracts with DHS. DHS procures shelter spaces from private providers using competitive sealed proposals, open-ended Requests for Proposals (RFPs), and negotiated acquisitions. Potential shelter providers begin the contracting process through the DHS online portal, completing a packet of information, which includes a budget proposal. Contract proposals go through a lengthy, multi-tier review and approval process to ensure they meet certain qualifications, including reasonableness of budget as established by New York Codes, Rules and Regulations (NYCRR). Each contract proposal is supposed to contain documentation of key elements of the review as well as a Recommendation for Award Narrative, where DHS outlines the consideration of price and documents the basis for the reasonableness of approved rates.

As the fiscal administrator, DHS is responsible for establishing the contract rates awarded to shelter providers. DHS has a number of tools to guide its rate setting, including a model budget tool (Model) used to negotiate the initial rates and renegotiate existing rates based on occupancy and type of shelter (i.e., family or single adult) and internal documents such as Budget Construct, used to track approved amendments that contribute to adjustments in contract rates. To administer other aspects of its homeless shelter fiscal responsibilities, DHS uses its Client Assistance and Rehousing Enterprise System (CARES), an electronic case management system that, among other tasks, records provider-reported client shelter days. DHS also uses three citywide computer systems for administering other aspects of its homeless shelter fiscal responsibilities: the City's Automated Procurement Tracking System, the Financial Management System, and the Health and Human Services Accelerator for contract management. In response to our initial audit, DHS officials stated they also rely on other internal and external documents to guide their shelter procurement process, such as the New York City Procurement Policy Board (PPB) rules.

Our initial audit report, issued on October 10, 2017, found that DHS lacks internal controls over the shelter contract procurement and rate-setting process. There were no written standard operating procedures (SOPs) for key aspects of the procurement process, and we could not determine whether shelter rates were reasonable. The rates were inconsistent among similar shelters and often exceeded prescribed ranges. In addition, the various DHS data systems were not integrated, making data sharing and analysis difficult.

The objective of our follow-up review was to assess the extent of implementation, as of February 26, 2020, of the four recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

DHS officials have made progress in addressing the issues identified in our initial report. Of the report's four recommendations, one was implemented and three were partially implemented.

Follow-Up Observations

Recommendation 1

Create, maintain, and implement DHS-specific SOPs for the shelter contract procurement and rate-setting process, as well as standard rate guidelines for negotiating provider budgets to ensure continuity in processes as DHS transitions through its integration into DSS.

Status – Implemented

Agency Action – In response to our initial report, DSS officials stated that the procurement SOPs already in existence for the New York City Human Resources Administration would be adapted for DHS procurements, with plans to further enhance and expand the SOPs. Since our prior report, DHS officials issued SOPs for the contract procurement process that cover contract management, contract planning and initiation, and procurement implementation activities and include procedures such as requesting agency ePIN numbers, pre-solicitation, RFP processes, preparing approved contracts for registration, and record retention. All SOPs are accessible to DSS and DHS staff through the DSS intranet. In addition, DHS and the New York City Office of Management and Budget (OMB) created a Model workflow and guidelines to document where the budget and the rate-setting process starts and ends as well as instructions on how to use the Model.

Recommendation 2

Improve controls over the rate-setting process so that rates are within DHS's outlined ranges. If contracts are awarded with rates that exceed those ranges, maintain adequate documentation for justification.

Status – Partially Implemented

Agency Action – In our prior report, DHS officials advised us that they were committed to rationalizing shelter provider rates for contracted sites. As stated earlier, DHS and OMB officials developed a Model to facilitate contract negotiations and rate setting to ensure consistency and adherence to guidelines. The Model:

- Addresses budgets for shelters for families with children, adult families, and single adults as well as shelters for persons experiencing mental health, substance abuse, and employment issues;
- Provides suggested staffing and funding levels for services that would meet all applicable State and local laws and directives;
- Uses the proposed shelter capacity and costs for specific line item categories to produce an overall site per diem that is translated to an annual budget;
- Uses specific staff ratios consistent with regulatory requirements and average salaries to produce a per diem for each personal services category (e.g., administrative staff, direct care staff); and
- Uses regulatory requirements and shelter capacity to determine the per diem for other than personal services costs.

When DHS receives a proposed budget, it uses the Model to determine specific ratios and per diems for each line item and uses this information to analyze the budget and negotiate with shelter providers. Once a rate is agreed upon, DHS submits its proposal to OMB for approval. Additionally, DHS stated that, with proper justification, providers may adjust specific line items to ensure the budget meets all necessary requirements. While flexibility is granted, DHS stated that a proposed shelter's budget cannot go above the total Model rate and the provider must meet all required standards and ratios.

We compared the negotiated rate to the total Model rate for a judgmental sample of five contracts and found that the negotiated rates were below the total Model rate for all five contracts.

DHS officials also stated they would develop a specific tool to help value proposed shelter rents. This tool will help determine the fair market value of a building depending on its size, condition, and location within the City and will also provide valuations based on square footage, small area fair market value, and recent neighborhood comparisons. Although DHS and OMB have developed a specific tool (OMB Rent Analysis Tool) to help value proposed shelter rents, we saw no evidence it was actually used to evaluate the proposed shelter rents in our sample.

Recommendation 3

Ensure that contract negotiations, evaluations, and evidence of reasonableness are adequately documented in contract registration packets to comply with stated DHS contract and rate-setting practices, NYCRR Title 18, Part 900, and PPB rules.

Status – Partially Implemented

Agency Action – In response to our prior report, DHS officials responded that a justification memorandum outlining negotiation and pricing will be included in the contract registration packets (packets). Key documents to be maintained include the provider-proposed budget, DHS' scoring evaluation, an approved budget, and evidence of contract negotiations and reasonableness of cost. DSS officials advised us that, as shelter contract budgets come up for negotiation, they would implement this new procedure. We reviewed a judgmental sample of five packets negotiated after our report was issued to determine whether the key documents were maintained in the packet. We found that four of the five packets contained all the key documents, or a reference to them. One packet was missing a contract negotiation. Although DHS officials later provided us with this document, it was not maintained in the packet.

Recommendation 4

Collaborate with related City agencies to integrate data systems so that DHS has the ability to perform data analytics on shelter data, and ensure that the integration has built-in controls to safeguard the data.

Status – Partially Implemented

Agency Action – DHS officials collaborated with the New York City Mayor's Office to develop an integration layer known as the Accelerator Interface (AI), designed to link the CARES and Accelerator systems. However, the AI will not be fully operational until September 2020 due to needed testing. DSS officials advised us that the AI links single adult shelters in CARES to their associated contracts in the Accelerator system and automates the advance payments process for family shelters. DHS officials explained that the AI has built-in controls to prevent duplicate payments and requires approvals for changes to fund release dates. However, the planned integration will not link shelter program expenditures, thereby limiting the ability to perform data analytics within the AI. In response, DHS officials advised us that they constructed an Enterprise Data Warehouse (EDW) to simplify their current manual data analytics process. The EDW currently holds all data that is retained in the CARES application including client and invoicing information, and as data is added to CARES, it flows to the EDW. Once the AI is fully operational, additional data from that application will also be held in the EDW.

Major contributors to this report were Keith Dickter and Adele Banks.

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 review.

Very truly yours,

Stephen C. Lynch
Audit Manager

cc: Ms. Martha Calhoun, General Counsel, DSS
Ms. Maura Hayes-Chaffe, Assistant Deputy Commissioner, DSS
Mr. George Davis III, Mayor's Office of Operations