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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 10, 2019

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

Re: Oversight of Security Expenses  
in Single Adult and Adult Family  
Homeless Shelters  
Report 2019-F-31

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 Security Expenses in Single Adult and Adult Family Homeless Shelters* (Report [2016-N-6](#)).

**Background, Scope, and Objective**

The New York City (City) Department of Homeless Services (DHS), an administrative unit of the New York City Department of Social Services (DSS), is responsible for shelter system management of homeless shelters in the City. DHS classifies adult shelters into two basic groups: adult shelters (for single adults) and adult family shelters. DHS considers a single adult to be any man or woman age 18 or older who seeks shelter independently, without being accompanied by other adults or minors. DHS considers an adult family to be any family without minor children. The majority of shelters are operated by private providers (for-profit and not-for-profit) through contracts with DHS. A typical provider contract includes provisions for procurement, inventory procedures, and maintenance of records.

Under Title 18 of the New York Codes, Rules and Regulations, DHS is responsible for ensuring that all shelters operating under its regulatory purview are providing security and protecting the physical safety of shelter clients and staff. Toward this end, DHS requires providers to develop security plans and implement appropriate security measures, as stipulated in the provider contracts. Shelter providers can hire their own security employees, procure contracted security services, or use a combination of both.

DHS is also responsible for monitoring shelters' security expenses to ensure they are appropriate and in compliance with contract requirements. DHS relies on various internal and external resources to guide its oversight, such as its Human Service Providers Fiscal Manual (Fiscal Manual) and the New York City Procurement Policy Board rules. For DHS monitoring purposes, among other provisions, providers are required to:

- Submit annual budgets, including security expenses, to DHS for review and approval for the upcoming fiscal year;
- Maintain proper and sufficient documentation of expenditures (e.g., vouchers, bills, receipts) as evidence of their propriety and necessity;
- Keep DHS contract-related records (e.g., contract proposals, personnel time sheets) for at least six years, and make records available for review by auditors and government officials;
- Follow the Request for Proposal process when procuring security services to ensure competitive bidding; and
- Develop standard operating procedures (SOPs) to ensure that adequate controls over timekeeping and payroll processes are in place.

The Fiscal Manual contains not only fiscal and administrative policies and guidelines to assist providers with managing their day-to-day and annual operations in accordance with their contracts, but also information regarding important oversight services provided by DHS to ensure providers are in compliance with their contracts and that DHS money for security at shelters is spent efficiently and in accordance with applicable regulations and policies. These services include:

- Provider expenditure reviews;
- Selective reviews;
- Contracted certified public accountant financial and compliance audits of each provider's contract; and
- Annual provider budget reviews.

In addition, DHS is responsible for the proper accounting of City-owned security equipment in the possession of shelter providers. Toward this end, DHS requires providers to submit inventory maintenance procedures within periods ranging from 10 to 30 days of contract commencement to ensure that providers maintain accurate records to account for all equipment, furnishings, and supplies purchased with DHS funds.

Our initial audit report, which was issued on May 7, 2018, found that DHS lacks strong internal controls – most notably DHS-specific SOPs. Our review of four sampled providers' security expenditures alone identified nearly \$2.2 million in insufficiently documented and/or questionable security expenses, indicating that significant monitoring gaps exist. Furthermore, DHS does not maintain, or hold providers accountable for

maintaining, accurate and complete inventory records of City-owned security equipment in use at homeless shelters, increasing the risk of loss, theft, or misuse of valuable and vulnerable assets.

The objective of our follow-up review was to assess the extent of implementation, as of September 20, 2019, of the ten 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 ten recommendations, two were implemented, seven were partially implemented, and one was not implemented.

### **Follow-Up Observations**

#### **Recommendation 1**

*Establish clear, written SOPs for required expenditure reviews.*

Status – Implemented

Agency Action – On April 1, 2019, DHS established a SOP that provides clear instructions for DHS staff regarding regular reviews of contracted provider invoices and random reviews of selected expenditures.

#### **Recommendation 2**

*Complete monthly expenditure reviews of provider expenses and maintain documentation of the reviews.*

Status – Implemented

Agency Action – According to DHS officials, they complete monthly expenditure reviews of provider expenses and also maintain documentation of these reviews. Our examination determined that DHS completed monthly expenditure reviews and maintained documentation to support the reviews for all five providers we sampled.

#### **Recommendation 3**

*Complete annual budget reviews prior to the beginning of the fiscal year.*

Status – Not Implemented

Agency Action – In our prior report, DHS officials agreed with our recommendation and stated they would ensure that new fiscal year budgets submitted by the deadline would be reviewed and approved prior to the beginning of the fiscal year. Based on our examination of five providers' annual budgets, including one that was submitted by the deadline, we determined that DHS is not in compliance. Four of the annual budget reviews were completed late – ranging from 4 to 24 days late – including the review of the budget submitted by the deadline. As of October 21, 2019, the

remaining budget review had not been completed.

DHS officials provided training and guidance to all DHS-contracted shelter providers regarding their submission of the new fiscal year budgets. However, providers continue to submit their budgets late and budgets received contain errors, which requires DHS to reject and return them. Regardless of these issues, DHS is the responsible oversight agency and needs to ensure that annual budget reviews are completed before the beginning of the fiscal year.

#### **Recommendation 4**

*Follow up on the expenditure discrepancies we identified and take appropriate action.*

Status – Partially Implemented

Agency Action – On June 7, 2019, DHS officials sent recoupment letters to each of the four shelter providers identified in the initial report. The letter required each provider to remit within 30 days the amount stated in the letter. However, only three providers have remitted the stated amount to DHS. Further, we found that DHS officials requested providers remit only \$29,300 (19 percent) of the total \$150,915 identified in our initial audit report. DHS officials did not provide us with an explanation or any documentation to explain why they did not request the full amount.

#### **Recommendation 5**

*Ensure that providers comply with their contractual requirements to retain sufficient documentation supporting proper procurement and payment of security services.*

Status – Partially Implemented

Agency Action – We found that DHS officials provided guidance to contracted shelter providers regarding their responsibility to retain sufficient documentation supporting proper procurement and payment for services. Our review determined that sufficient documentation supporting proper security procurement was maintained for two of three sampled providers. However, one of the providers sampled did not maintain accurate documentation to support payment of its contracted security services.

#### **Recommendation 6**

*Periodically review the credentials of providers' security personnel.*

Status – Partially Implemented

Agency Action – DHS officials, in conjunction with New York State Office of Temporary and Disability Assistance officials, conducted inspections at 147 adult and adult family shelters between February 7, 2018 and August 21, 2019 to determine whether security guards had valid security guard licenses. They found violations at 39 of these shelters. Of those shelters found to have violations, 30 rectified the issues, 7 were in the process of updating security guard licenses, and 2 shelter providers

did not respond to the citations. DHS officials advised us that they had recently followed up with the two shelter providers who did not respond to the citations.

### **Recommendation 7**

*Maintain a current inventory of security equipment located at all shelters that reflects best practices for inventory record keeping.*

Status – Partially Implemented

Agency Action – In response to our initial report, DHS officials stated they would adopt a two-phase approach to obtaining current security inventory lists from providers as well as set up a framework to address the deficiencies in the inventory tracking process. We determined that DHS obtained security equipment inventory lists from our sample of three providers. We also compared DHS' security equipment inventory lists to the security equipment located at the providers and found that DHS' inventory lists were not accurate for two providers. In both instances, the number of radios located at the shelter did not match the number of radios listed on DHS' inventory records. We were unable to verify the inventory list for the third provider, because we could not gain access to six radios reportedly locked in employees' desk drawers. Additionally, we determined that DHS has not set up a framework to address the deficiencies in the inventory tracking process.

### **Recommendation 8**

*Ensure that providers comply with all contractual requirements, including the submission of inventory maintenance SOPs and security equipment inventory records.*

Status – Partially Implemented

Agency Action – In response to our initial audit, DHS officials stated they would provide guidance to the providers regarding their responsibility to comply with all contractual requirements. DHS officials also stated they would conduct annual audits to ensure that inventory maintenance SOPs and security equipment inventories are submitted by the providers. Our review of five providers determined that equipment inventory records of all security equipment purchased with DHS funds were submitted to DHS. However, we found no evidence that providers submitted their inventory maintenance SOPs to DHS. Additionally, we saw no evidence that DHS provided training or conducted annual audits.

### **Recommendation 9**

*Maintain consistency in contract clauses, including the submission of inventory records.*

Status – Partially Implemented

Agency Action – After our initial audit, DHS officials stated they would revise their shelter agreements to require providers to submit annual inventory records. We examined

a sample of nine contracts and found that one of the nine did not include the clause requiring submission of inventory records.

**Recommendation 10**

*Maintain consistency in contract clauses, including ownership interest of security equipment, and remove the “in excess of \$5,000” language.*

Status – Partially Implemented

Agency Action – We sampled nine contracts and found that all the shelter agreements stated that security equipment purchased for providers is owned by DHS. However, DHS officials did not remove the “in excess of \$5,000” language from any of these contracts. Providers could infer from this clause that security equipment costing \$5,000 or less belongs to the providers.

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

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. Maria Ciniglio, Deputy Commissioner, DSS