

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Administration Of the Resident Employment Program By the New York City Housing Authority

MJ03-143A

June 30, 2004



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited the New York City Housing Authority (NYCHA) to determine whether the agency has effective controls to ensure that its Resident Employment Program is operating as intended. NYCHA's mission is to provide decent and affordable housing for low-and moderate-income residents throughout the five boroughs. The NYCHA Department for Resident Employment Services administers the agency's Resident Employment Training Programs.

Our audit resulted in the findings and recommendations that are presented in this report. The findings and recommendations were discussed with City officials; their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/fh

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*The City of New York
Office of the Comptroller
Bureau of Management Audit*

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AUDIT REPORT IN BRIEF

This audit determined whether the New York City Housing Authority (NYCHA) has effective controls to ensure that the Resident Employment Program (REP) is operating as intended. NYCHA's mission is to provide decent and affordable housing for low- and moderate-income residents throughout the five boroughs. The NYCHA Department for Resident Employment Services (RES) administers the agency's Resident Employment Training Programs, which include REP.

REP requires contractors for NYCHA construction contracts valued at \$500,000 or more to expend not less than 15 percent of the total labor cost, including fringe benefits, for the hiring of NYCHA residents. NYCHA's Fiscal Year 2004 capital budget for construction projects is \$556,232,000.

Audit Findings and Conclusions

NYCHA generally does not have effective controls to ensure that REP is operating as intended. Specifically, NYCHA management has not developed any formal procedures for the program and has not coordinated the efforts of RES and the administering departments in monitoring contractor compliance with REP. As a result, those persons charged with monitoring contractor compliance do not have a clear understanding of their responsibilities, and no one is held accountable for ensuring that contractors provide accurate information regarding resident hiring.

Our review of a sample of 33 contracts revealed that contractors submitted the required REP hiring summaries for only 236 (55%) of the 433 payment packages reviewed. Additionally, only 137 (74%) of 185 persons identified as resident hires by contractors for those 33 contracts were in fact legal residents. Our review of a sub-sample of nine contracts revealed that 45 (58%) of the 78 hiring summaries we analyzed were not supported by the payroll records, and 34 (44%) of them overstated the amounts paid to hired residents by 28 percent. Overall, only eight percent of the labor expenditures for these contracts was paid to resident hires, according to payroll records obtained by NYCHA.

We recognize that NYCHA's intent in implementing REP was to enforce the mission of the Section 3 Program and hold contractors accountable for allocating a mandatory percentage of funds for the hiring of NYCHA residents. NYCHA officials also stated that the agency was aware of many of the problems we identified in this audit. Officials also cited the displacement of staff and records following the September 11, 2001, attack on the World Trade Center as a factor that hindered contractor monitoring. During the course of the audit, management instituted some program changes designed to improve accountability. However, much remains to be done. Until effective accountability is achieved, NYCHA will be hindered in its efforts to ensure that residents are provided employment opportunities in its capital construction projects.

Audit Recommendations

We make six recommendations to NYCHA. NYCHA should:

- Design and issue a formal written procedures manual for REP. The procedures should clearly define the responsibilities of all parties involved in REP and document the internal controls and milestones that management has developed to help ensure that the program's objectives are achieved.
- Coordinate the efforts of the RES and the administering departments to ensure that materials are transmitted in a timely manner and that all parties know their respective roles in the administration of REP and the steps to take regarding noncompliant contractors.
- Ensure that specialists use the correct criterion—the percentage of total labor costs that are paid to NYCHA residents—to evaluate contractor compliance with REP hiring requirements.
- Develop an accurate listing of all contracts participating in REP.
- Institute better controls to verify that NYCHA residents whom the contractors reportedly hire are actually on the job and working.
- Reconcile the residency-hiring information recorded in the Section 3 and contractor history report databases so that the information in both databases agrees and is accurate.

INTRODUCTION

Background

The mission of the New York City Housing Authority (NYCHA) is to provide decent and affordable housing for low- and moderate-income residents throughout the five boroughs. NYCHA is responsible for managing approximately 340 developments containing more than 180,000 apartments. NYCHA preserves its housing stock through maintenance and modernization of developments. NYCHA's Fiscal Year 2004 capital budget for construction projects is \$556,232,000.

The NYCHA Department for Resident Employment Services (RES), formerly known as the Department of Economic and Business Initiatives,¹ administers the agency's Resident Employment Training Programs. These programs focus on assisting residents in becoming economically self-sufficient through job placement, training, supportive services, and educational opportunities. Two of the programs are the Section 3 Program (Section 3) and the Resident Employment Program (REP).

Section 3 of the Housing and Urban Development Act of 1968 is a federally-funded program designed to provide residents in public housing developments with an economic benefit from construction work at the developments. For capital contracts valued at \$100,000 or more, contractors are urged to hire residents "to the greatest extent feasible." However, there is no minimum hiring requirement as to the number of residents that contractors must hire. As a first step toward making the hiring of NYCHA residents a mandatory requirement, NYCHA established REP in January 2001 as a pilot program for mandatory resident-hiring. For contracts valued at \$500,000 or more, not less than 15 percent of the total labor cost, including fringe benefits, should go to NYCHA residents.

Residents who are interested in participating in REP are required to complete an application, called the "Job Training/Section 3/ Employment Referral Intake Form," and attend an assessment and orientation session. Residents must be in good standing; those facing eviction proceedings because of improper or illegal conduct are not eligible. At the orientation, residents are provided basic information about the program. After they complete orientation, residents are included on an intake (pre-qualified) list. This list is provided to contractors who can use the list to select resident hires.

NYCHA has three administering departments that oversee capital work. The Construction Department (Construction) oversees new construction contracts that have multiple prime contractors. The Contract Administration Department (Contract Admin) oversees remodeling and modernization contracts. The Technical Services Department (Tech Services) supports maintenance operations of NYCHA and oversees skilled-craftsman work and the remaining types of capital work not monitored by the other two departments (such as elevator work).

¹ The name of the department was changed in Fiscal Year 2004.

In addition, the Design and Capital Improvement Department (Design) conducts public bids and processes contract awards. Design solicits bids (requests for proposals) for construction and modernization work. (Tech Services solicits bids for the capital work under its administration.) The requests incorporate Section 3 and REP language. The Management Systems and Planning Department maintains NYCHA databases. These databases include the Support Services Tracking System, which contains assessment and employment information on residents interested in the programs offered by RES. The Tenant Data System (TDS) contains the name and address of all legal residents as well as their household composition. The Section 3 database is used to track open REP contracts and their related hiring activities.

The administering departments are responsible for monitoring the overall performance of contractors in completing contracts; however, RES is responsible for monitoring the contractor compliance with the resident hiring plan.

Objective

To determine whether NYCHA has effective controls to ensure that REP is operating as intended.

Scope and Methodology

The scope of this audit was December 2000 through February 2004.

To obtain an understanding of REP, we performed the following steps:

- Requested all procedures and policy manuals and related documentation regarding NYCHA's administration of REP
- Reviewed Section 3 of the Housing and Urban Development Act of 1968 to ascertain hiring requirements for contractors
- Interviewed management and staff from RES and administering departments, conducted a walkthrough of their procedures, and prepared a flowchart of REP based on the interviews.
- Reviewed NYCHA Web site for REP information
- Met with Management Information System (MIS) personnel and obtained a basic understanding of the Support Services Tracking System (SSTS) and Section 3 computer databases

Since there was no formal set of REP procedures we had to use alternative procedures to obtain an understanding of the procedures and practices of those responsible for monitoring REP contractor compliance. We interviewed Section 3 specialists and administered questionnaires that addressed their duties and responsibilities. We also accompanied Contract Compliance Unit (CCU) inspectors when they visited three contract sites on April 15, 2003, to ascertain the way they carried out their job function.

To determine whether contractors are complying with the REP requirements, we selected a sample of contracts in REP to perform testing. We received from RES a list of 323 contracts, valued at \$769,092,000, that included both REP and non-REP contracts. (NYCHA was unable to provide an accurate total of REP contracts. We did not see a need to test the completeness of the data we were provided because, based on a preliminary internal control assessment, we identified significant weaknesses in NYCHA oversight and were aware that the agency could not determine the total number of REP contracts.) RES also provided us the July 2003 Monthly Progress Reports for the administering departments that listed all of the current contracts under their administrations and the percentage of work completed for each. We excluded requirements contracts and contracts covering more than one development; according to RES officials, these contracts are not participants in REP. Using these lists, we identified 188 contracts valued at \$500,000 or more; the total value of these 188 contracts is \$538,540,000. To ensure that we did not review contracts that were just starting and did not yet have the opportunity to hire residents, we limited the audit test population to contracts that were at least 40 percent completed as of July 2003. There were 73 contracts that fit this criterion. From these 73, we randomly selected 33 contracts to test whether contractors submitted REP hiring summaries and to identify the number of reported hires who were legal NYCHA residents.

Based on the preliminary results of our audit testing and control assessment, we determined that NYCHA had inadequate oversight of REP. (This issue is discussed in more detail beginning on page 9 of this report.) To determine the effect of this condition, we performed detailed testing for a limited number of contracts. From the sample of 33 contracts, we randomly selected a sub-sample of nine.

Because the results of our testing appear to be conclusive and provide us a reasonable basis to satisfy the audit's objective, we decided not to expand our samples so as to project sample results to their entire populations.

We requested residency status for persons listed in hiring summaries for the 33 sample contracts. For the sub-sample of nine contracts, we reviewed payroll documentation maintained at the administering departments to determine the amount of money, as well as the percentage of overall labor cost, that went to NYCHA residents. For these contracts, we also requested from the contractors the wage and income statements (W-2 forms) and canceled checks for resident hires to determine whether the hires were bona fide.

We requested and reviewed the REP hiring results for the 24 contracts identified by NYCHA as being part of the REP pilot program when it was initiated in January 2001 to determine whether the contractors complied with the REP hiring criterion (i.e., a minimum of 15 percent of total labor cost allocated to NYCHA residents).

We reviewed contractor files at RES and the administering departments to determine actions taken in regard to contractors who did not fulfill REP resident-hiring requirement. We also requested evidence that may not have been in the case files of any follow-up activity performed regarding contractors who did not meet the residency-hiring requirement.

* * * * *

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with NYCHA officials during and at the conclusion of this audit. A preliminary draft report was sent to NYCHA officials and was discussed at an exit conference on May 26, 2004. On June 4, 2004, we submitted a draft report to NYCHA officials with a request for comments. We received a written response from NYCHA officials on June 18, 2004. In their response, NYCHA officials generally agreed with the audit's recommendations. NYCHA stated:

“Thank you for the report and our shared commitment for NYCHA to continue to be a leader among public housing authorities in creating rewarding and full-time job opportunities for its residents.”

The full text of the NYCHA response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

NYCHA generally does not have effective controls to ensure that REP is operating as intended. Specifically, NYCHA management has not developed any formal procedures for the program and has not coordinated the efforts of RES and the administering departments in monitoring REP contractor compliance. As a result, those persons charged with monitoring contractor compliance do not have a clear understanding of their responsibilities, and no one is held accountable for ensuring that contractors provide accurate information regarding resident hiring.

Contractors generally do not comply with the REP requirements and, in a number of instances, overstate the amount of money that goes to NYCHA residents. Our review of a sample of 33 contracts revealed that contractors submitted the required REP hiring summaries for only 236 (55%) of the 433 payment packages reviewed. Additionally, only 137 (74%) of 185 persons identified as resident hires by contractors for those 33 contracts were in fact legal residents. Our review of a sub-sample of nine contracts revealed that 45 (58%) of the 78 hiring summaries we analyzed were not supported by the payroll records, and 34 (44%) of them overstated the amounts paid to hired residents by 28 percent. Overall, only eight percent of the labor expenditures for these contracts was paid to resident hires, according to payroll records obtained by NYCHA. The lack of adequate contract monitoring allows contractors who do not fulfill their REP obligations to escape the consequences of noncompliance (e.g., sanctions).

We recognize that NYCHA's intent in implementing REP was to enforce the mission of the Section 3 Program and hold contractors accountable for allocating a mandatory percentage of funds for the hiring of NYCHA residents. NYCHA officials also stated that the agency was aware of many of the problems we identified in this audit. Officials also cited the displacement of staff and records following the September 11, 2001, attack on the World Trade Center as a factor that hindered contractor monitoring. During the course of the audit, management instituted some program changes designed to improve accountability. However, much remains to be done. Until effective accountability is achieved, NYCHA will be hindered in its efforts to ensure that residents are provided employment opportunities in its capital construction projects.

REP Overview

Since NYCHA has no formally documented procedures for the Resident Employment Program, we had to rely solely on our interviews with NYCHA officials and staff to gain an understanding of the informal procedures used by NYCHA. NYCHA also provided us with a REP overview spreadsheet entitled, *Section 3/REP Contract Tracking Process*. Based on the above, the REP procedures are as follows.

Once a contract is awarded, the selected contractor is required to sign a statement of intent to comply with the resident-hiring plan. The hiring plan, initially submitted by a contractor in the bid package, includes a breakdown of the proposed total labor costs, the estimated amount of money to be paid to NYCHA residents (REP amount), and the anticipated number of positions to be filled by NYCHA residents. The hiring plan also estimates the amounts that will be paid to residents at various stages of contract completion (milestone targets).

The contractor attends a pre-start meeting, where all of the contract requirements, including the resident-hiring requirement, are discussed. RES provides the contractor with an intake list generated from the SSTS database, from which the potential resident hires are selected. When a resident is selected, RES removes the person's name from the intake list and enters it on the employed list. Contractors are encouraged to hire residents from the intake list; however, they can hire persons through referrals. However, those residents not hired through the list nonetheless go through NYCHA orientation.

During the contract term, the contractor submits Periodic Estimates for Partial Payment (payment packages). These packages include a payroll listing of all persons who worked on the contract during the period as well as a REP hiring summary. The REP hiring summary is the NYCHA form that documents a contractor's compliance with REP requirements. The hiring summary contains information on the funds spent to hire NYCHA residents relative to the total labor cost. It includes:

- List of residents employed during the payroll period
- Total number of NYCHA residents employed on the contract to date
- Total payroll including fringe benefits paid during the payroll period
- Total payroll paid on contract to date
- Total wages including fringe benefits paid to residents during the payroll period
- Total wages paid to residents on contract to date
- Percentage of total payroll paid to residents on contract to date

Contractors may also submit a Section 3 hiring summary, which lists the resident hires but does not list the funds spent. (For the purposes of this report, "hiring summary" will refer to the REP version, unless stated otherwise.) Contractors are instructed at the contract pre-start meeting that a hiring summary should be one of the documents submitted with their payment request packages. A sample of the form is also given to them. The form states that unless this summary is included in the package, the payment request will not be processed.

The contractor forwards the payment package to the administering department overseeing the contract. That department is responsible for reviewing the hiring summary and forwarding it to RES, where it is date- and time-stamped upon receipt. A TDS clerk is responsible for reviewing the TDS database to determine whether the persons listed in the summary are legal NYCHA residents. A Section 3 clerk enters the names of all persons listed in the hiring summary in the Section 3 database, identifying those persons who are legal residents. The hiring summary is then forwarded to an RES specialist, who updates the contractor history report on an Excel spreadsheet. The specialists are responsible for monitoring contractor compliance. An RES specialist's workload, which generally includes both REP and Section 3 contracts, ranges from 34 to 121 contracts. If a hiring summary contains persons who are not legal NYCHA residents, the specialist will require the contractor to submit a modified hiring summary that lists only the legal residents so that the specialist can determine the amount of wages paid to residents.

CCU, part of RES, was formed in February 2003 and is responsible for visiting work sites and ensuring that residents are working. There are four inspectors in CCU and they are responsible for monitoring approximately 350 Section 3 (and REP) contracts.

If a milestone target of the hiring plan is not reached, the specialist is to send the contractor a “letter of noncompliance” and send a copy to the appropriate administering department. If the contractor fails to comply after the specialist issues a second noncompliance letter, RES should recommend to the administering department that it take disciplinary action against the contractor.

Overall, however, we found that the program is not operating as intended. The factors that we believe contribute to this condition are discussed in the following sections of this report.

NYCHA Management Has Not Developed Formal Procedures for REP

Management has not developed formal procedures for REP despite the fact that the program was initiated more than three years ago.

Formal procedures serve a number of purposes. Formal procedures clearly define and document the responsibilities of all parties associated with a program. They also identify: the internal controls that are designed to ensure that REP operates as intended, the specific actions that must occur and the steps to take if they do not, and methods for monitoring the program.

Although NYCHA has not promulgated formal procedures for the program, the agency has outlined the areas of responsibility for various staff members. RES specialists are responsible for monitoring contractor compliance with hiring requirements. They are also responsible for ensuring the accuracy and completeness of REP documents submitted by a contractor, maintaining a contract folder, and updating the contract history report. CCU is responsible for visiting work sites and verifying that residents are present and working.

The program has been operating in some form for more than three years, yet no formal procedures exist. Further exacerbating the difficulties that arise from a lack of formal procedures has been the significant staff and management turnover since the program’s inception. As a result, no clear identification or documentation exists regarding key responsibilities for all parties associated with the program and regarding the controls needed to ensure that the program operates as intended. At the exit conference, NYCHA officials stated that they have been working on standard operating procedures for REP and provided us a preliminary draft of a section of those procedures. However, NYCHA did not indicate a tentative date for the finalization of these procedures.

Lack of Coordination between RES and Administering Departments Hinders NYCHA Effectiveness in Monitoring REP

In addition to not developing formal procedures, NYCHA has not coordinated efforts of its departments to ensure the monitoring of contractor compliance with REP requirements. For example, no one verifies the accuracy of the financial information reported by contractors

regarding moneys paid to NYCHA residents. As a result, NYCHA contractors are allowed to fall short of the 15-percent resident-hire requirement without any sort of economic sanction being taken against them.

While RES is responsible for monitoring contractor compliance with resident hiring plans, the administering departments are responsible for monitoring the overall performance of contractors in completing contract work; they directly oversee the contractors and enforce corrective measures when contractors perform poorly. These departments also receive materials from contractors, such as the hiring summaries. Accordingly, RES and the administering departments must work together to ensure that RES receives the materials necessary to adequately monitor contractor compliance with resident hiring requirements.

However, NYCHA management has not put a system in place to ensure that materials needed to monitor contractors are provided to RES in a timely manner. RES has no authority to compel the administering departments to forward needed documents. According to an RES official, it may take the administering departments one to three months to distribute the hiring summaries to RES.

An excerpt from the REP hiring summary states that the summary must be attached to the payrolls for each period being invoiced or the payment will not be processed. Yet the departments generally do not ensure that contractors include a hiring summary in the payment request packages. In addition, the informal procedures followed (in the absence of formal ones) require that an authorized employee in the administering department review and sign off on the summaries. According to an RES official, if RES receives a summary without the required approval signature and returns it to the administering department, two to three weeks elapse before RES receives the signed form.

The result of the poor coordination between RES and the administering departments is that RES is unable to properly monitor contractor compliance. No one is held responsible for ensuring the accuracy of financial information reported by contractor regarding money paid to residents; in fact, no one ensures that the contractors even submit summaries. Our review disclosed that the administering departments process the payments to contractors even when the contractors do not submit the REP hiring summary, contrary to the instructions in the REP hiring summary prohibiting payment without submission of the summary.

We reviewed the contractor files at the administering departments and retrieved the payroll packages for 33 contracts. Of the 433 packages we reviewed, only 236 (55%) contained a hiring summary. We found no REP hiring summaries in the packages reviewed for three contracts. Overall, for the 33 contracts reviewed, only three contracts contained a hiring summary in each package. When contractors do submit hiring summaries with the payment request packages, the administering departments simply forward the summaries—without the accompanying payroll data—to RES.

Further, the actions that should be taken if a contractor is noncompliant are not properly defined. According to RES, if a contractor fails to comply with the hiring requirements after receiving multiple requests from REP specialists to comply, the case is forwarded to the

appropriate administering department with a recommendation that unexpended contract dollars be withheld; the administering department is responsible for making a determination of the measures to be taken against the contractor. However, officials at two administering departments were not aware of such a procedure.

At the exit conference, NYCHA officials stated that they recognize the need to improve the coordination between RES and the administering departments and that the formal procedures the agency is developing will address coordination. Officials stated that they intend to have both RES and the administering departments, rather than RES alone, monitor REP contractor compliance.

Specialists Do Not Check Accuracy of Key Documents in Monitoring REP Contractor Compliance

In addition to poor coordination between RES and the administering departments, we found that specialists do not check the accuracy of the hiring summaries submitted by contractors when they monitor REP contractor compliance.

Although the specialists rely on the administering departments to review the accuracy of the hiring summaries, the specialists are primarily responsible for ensuring the accuracy and completeness of REP documents submitted by contractors. Accordingly, the specialists should verify the payroll figures reported on the hiring summary, but they do not request the supporting payroll documentation from the administering departments and therefore are unable to verify the figures. In fact, the specialists mistakenly believe that an administering department's sign-off means that the summary is accurate and that the specialist may rely on it as part of the contract-monitoring process. However, according to personnel of the administering departments, the summaries are not reviewed to determine their accuracy. The sign-off merely indicates that the document was received.

Because the specialists do not verify the payroll information reported in the hiring summary, they are severely hindered in determining the progress of contractors in meeting the 15-percent labor-cost requirement. If a hiring summary contains persons who are not legal NYCHA residents, then the information reported in the summary, such as labor costs paid to NYCHA residents, is incorrect. If specialists verified the payroll information and were aware of the amounts paid to each person listed on the summaries, they could merely subtract the amounts paid to those persons to arrive at the actual amounts paid to legal residents only. However, this is not done; instead, the specialists request modified summaries from the contractors. As a result, if a contractor fails to submit a modified summary, or delays in submitting one, the specialist is unable to determine whether the contractor is meeting the REP hiring requirement.

Specialists are also responsible for ensuring that contractors submit the hiring summaries. However, when we surveyed the specialists, only four of the eight specialists were aware that the contractors are required to submit hiring summaries to show their compliance with REP obligations. Three specialists stated that the contractors are not required to submit any documents, and the remaining specialist stated that contractors provide this information on their letterhead. We believe that these specialists are unaware that contractors are required to submit

the hiring summaries because they are not using the appropriate criterion to evaluate REP compliance.

Specialists Use Inappropriate Criterion in Monitoring REP Compliance

Specialists generally do not use the appropriate criterion when monitoring contractors for compliance with REP. Specialists evaluate contractors based solely on the number of resident hires rather than the REP criterion, which is the percentage of labor costs that are directed to resident hires.

To determine the steps taken by specialists in monitoring contractor compliance, in December 2003 we requested the contractor-history reports for our sample of 33 contracts. RES officials previously acknowledged that the specialists did not update the history reports in a timely manner.

When we received the reports, we observed that specialists did not always record the total labor costs or the actual REP amounts. The REP amount is the contractor's actual labor costs for NYCHA hires. The budgeted REP amounts (from the hiring plan) are listed, but without the other two previously-mentioned items, there is no evidence that specialists are aware of whether or not contractors are in compliance with REP (i.e., that they spent at least 15 percent of labor cost to hire NYCHA residents).

To determine whether specialists tracked the REP compliance status for our sub-sample of nine contracts, we requested evidence of any noncompliance notices issued in relation to these contracts. (The results of our analysis of the sub-sample begin on page 14 of this report.) In response, NYCHA provided us with documentation of notices sent to six contractors. The notices were primarily either to inform contractors to submit their REP hiring summaries or to inform them that they had not reached one of the REP milestones. However, of the nine contracts, specialists found that seven had complied with REP. When we reviewed the criteria that specialists used to determine whether a contractor was in compliance with REP, we found that they used the number of resident hires that the contractor projected for the start of the contract. However, although this figure is reported in the hiring plan, the actual criterion for REP compliance is the percentage of labor costs that goes to NYCHA residents. By using the wrong criterion, NYCHA may be shortchanging residents by reducing the amount of money being channeled back to them. For one contract (#DC9800015), a contractor exceeded the number of projected resident hires by 13, yet forwarded only five percent of the total labor costs to NYCHA residents.

RES Does Not Know the Number of REP Contracts

Another indication of NYCHA's weak oversight of REP is the inability of RES to provide an accurate figure for the number of contracts in REP. Not knowing the number of contracts participating in the program hinders RES in assessing the program's overall effectiveness.

To facilitate audit testing, we asked RES in April 2003 to provide us the number of REP contracts. We received a list on May 7, 2003 that contained 323 contracts. However, this list contained other types of contracts, such as Section 3 and requirement contracts. This fact was brought to the attention of RES officials, and we requested a revised list. During the next few months, we received two subsequent lists; however, neither list contained all of the agency's REP contracts. By October 2003, we still could not get an accurate count of REP contracts. We obtained a list of contracts from Design in October that should have contained only REP contracts, but that also contained other types of contracts. In addition, when compared with the list that we received from RES, there were some REP contracts on the Design list that were missing from the RES list, and vice versa.

As of February 2004, RES was still unable to provide an accurate count of REP contracts. In that month officials provided us a list that contained Section 3 and various miscellaneous contracts. In addition, some contracts were listed more than once. RES officials conceded that there are database issues that need to be addressed. Nevertheless, without knowing the full population of contracts in the program, RES cannot assess the program's overall effectiveness.

Thus, the absence of formal procedures governing the administration of the program, the inadequate coordination between RES and the administering departments in monitoring contractor compliance, the use of inappropriate criterion to monitor contractor compliance, and the failure of RES to count the number of contracts participating in REP combine to significantly hamper the agency's ability to monitor contractor compliance.

Recommendations

The New York City Housing Authority should:

1. Design and issue a formal written procedures manual for REP. The procedures should clearly define the responsibilities of all parties involved in REP and document the internal controls and milestones that management has developed to help ensure that the program's objectives are achieved.

NYCHA Response: "We agree. In March 2004, RES completed and distributed departmental procedures outlining the responsibilities of the Section 3/ Resident Employment Program specialists and the unit's monitoring processes. NYCHA's RES is working with all the cognizant departments, including Capital Projects, Equal Opportunity and program Assessment & Policy Development to finalize the draft written procedures it currently has in place. It is anticipated that the final written procedures will be issued by the fall of 2004."

2. Coordinate the efforts of RES and the administering departments to ensure that materials are transmitted in a timely manner and that all parties know their respective roles in the administration of REP and the steps to take regarding noncompliant contractors.

NYCHA Response: “We agree. As previously mentioned in our response to Recommendation 1, the roles and processes of the Section 3/ Resident Employment Program staff were distributed and reviewed in March 2004 and NYCHA anticipates issuing final procedures in the fall of 2004. These procedures will clearly define the responsibilities of each department as well as management controls, objectives and steps to be taken to ensure contractor compliance.”

3. Ensure that specialists use the correct criterion—the percentage of total labor costs that are paid to NYCHA residents—to evaluate contractor compliance with REP hiring requirements.

NYCHA Response: “We agree. Internal staff training on Section 3/ Resident Employment Program procedures has been implemented to ensure uniformity throughout the unit in monitoring contracts and contractor compliance. Section 3 Specialists are aware of proper criteria when evaluating contractor compliance with respect to Resident Employment Program hiring requirements. Additionally, Department of Equal Opportunity (DEO) will assume a more active role, from the start of contract to its completion, and monitor contractor compliance with respect to prevailing wages and ensure that the appropriate labor costs are directed to resident hires by examining Hiring Plans and Payroll forms. DEO will forward findings to RES and administering departments.”

4. Develop an accurate listing of all contracts participating in REP.

NYCHA Response: “As mentioned in the Exit Conference, we believe our current computer system has an up-to-date listing of all contracts participating in Resident Employment Program. Our inability in the past to provide such a list was a result of loss of records due to destruction of our 90 Church Street facilities caused by the September 11 attack.”

Effect of Inadequate Oversight of REP Compliance

The inadequate oversight of contractor compliance with REP increases the risk that contractors will fail to meet the hiring requirements or will provide inaccurate information regarding REP compliance. We analyzed the hiring summaries and accompanying payroll records for the nine contracts in our sub-sample to determine the following:

- Whether the amounts paid to residents as reported in the hiring summaries could be supported by the payroll records.
- Whether all of the persons listed on the summaries were legal NYCHA residents and, if not, the amount that was paid to the legal residents only.
- Whether the amount paid to the legal residents constituted 15 percent of the total labor cost.

The results of our tests are discussed below.

**Amounts Reportedly Paid to Residents Are Overstated
By 28 Percent for Nine Contracts**

Our review of a sub-sample of nine contracts revealed that 45 (58%) of the 78 hiring summaries we analyzed were not supported by the payroll records; 34 (44%) of them overstated amounts paid to hired residents (REP amounts). Overall, the summaries overstated the REP amounts by \$272,449, 28 percent of the \$966,046 that contractors reported that they paid to residents.

For the nine contracts in our sub-sample, there were 99 packages that contained REP hiring summaries. Of the 99, 21 of them did not contain all of the payrolls related to that package, so we were unable to analyze those summaries. (For one contract, the contractor submitted one REP hiring summary at the end of the contract, listing all the residents hired during the contract. For this contract, we calculated the amounts paid to the listed persons for all of the payrolls in the contract.) For the remaining 78 packages, our analysis revealed that REP amounts in 45 (58%) of the hiring summaries were not supported by the payroll records. The results of our analysis, segregated by contract, are shown in Table I.

Table I

Analysis of Amounts Paid to Resident Hires in Hiring Summaries
For Nine Contracts

Contract No.	No. of Hiring Summaries Reviewed	No. of Summaries That Did Not Agree with Payroll Records	No. of Summaries That Overstate Amount Paid to Resident Hires	No. of Summaries That Understate Amount Paid to Resident Hires
PD0200165	2	2	100%	0
PD0200044	6	2	33%	1
DC9800016	13	0	0%	0
ST9900020	12	2	17%	1
AB0100005	5	5	100%	0
DC9800017	9	4	44%	1
AR9900019	20	20	100%	5
DC9800015	10	9	90%	3
PE0100041*	1	1	100%	0
Totals	78	45	58%	11

*Contractor submitted only one hiring summary at the end of the contract

As shown in Table I, none of the summaries we reviewed for four contracts highlighted in the table agreed with the payroll records. Although the majority of the discrepancies resulted in an overstatement of the amount paid to resident hires, some of the discrepancies resulted in an understatement. A breakdown by contractor is shown in Table II below.

Table II

Analysis of the Mathematical Accuracy of Amounts Paid to Resident Hires
As Reported in Hiring Summaries

Contract No.	Amounts Paid to Persons Listed in Hiring Summaries		Net Difference		Amount Overstated In Summaries D	Amount Understated In Summaries E
	According to Hiring Summaries A	According to Payroll Records B	C (B – A)	%		
PD0200165	\$3,458.00	\$3,120.17	\$(337.83)	10%	\$337.83	\$ -
PD0200044	6,867.90	6,645.91	(221.99)	3%	255.89	33.90
DC9800016	40,192.00	40,192.00	-	0%	-	-
ST9900020	112,549.47	114,769.17	2,219.70	-2%	2,469.60	4,689.30
AB0100005	59,381.22	55,390.45	(3,990.77)	7%	4,177.47	186.70
DC9800017	32,076.00	30,140.00	(1,936.00)	6%	2,046.00	110.00
AR9900019	563,306.01	316,018.55	(247,287.46)	44%	248,787.46	1,500.00
DC9800015	123,630.00	111,381.00	(12,249.00)	10%	15,329.00	3,080.00
PE0100041	24,585.78	15,940.50	(8,645.28)	35%	8,645.28	-
Totals	\$966,046.38	\$693,597.75	(\$272,448.63)	28%	\$282,048.53	\$9,599.90

As shown in Table II, the hiring summaries overstated the amounts paid by 28 percent. However, not all of the persons listed in the hiring summaries were legal NYCHA residents, as discussed in the following section of this report.

Only 70 Percent of Persons Listed by Contractors on Hiring Summaries for Nine Contracts in Sub-sample Were Legal NYCHA Residents

Of the 82 persons that contractors listed on the hiring summaries for the nine contracts in our sub-sample, only 57 (70%) were legal NYCHA residents.

As stated previously, the hiring summaries list the NYCHA residents whom the contractors employed. After the administering department forwards the summary to RES, a TDS clerk is responsible for reviewing the database to determine whether the persons listed are in fact legal NYCHA residents. A specialist is then supposed to update the contractor history report and identify the NYCHA residents working on the contract.

For the nine contracts in our sub-sample, 93 persons were listed on the REP and Section 3 hiring summaries. We forwarded these names to RES and asked to be informed of the residency status of these persons. RES did not provide information for 11 residents. Of the remaining 82 hires, 25 (30%) were not on TDS; hence, they were not recognized by NYCHA as legal residents. The breakdown per contractor is shown in Table III below.

Table III

Persons Confirmed by TDS To Be NYCHA Residents
For Nine Contracts

Contract No.	# Of Resident Hires on Summaries	# of Persons Listed on TDS	%	# of Persons Not Listed On TDS	%
PD0200165	7	4	57%	3	43%
PD0200044	6	5	83%	1	17%
DC9800016	1	1	100%	0	0%
ST9900020	9	9	100%	0	0%
AB0100005	7	5	71%	2	29%
DC9800017	2	2	100%	0	0%
AR9900019	20	9	45%	11	55%
DC9800015	25	18	72%	7	28%
PE0100041	5	4	80%	1	20%
Totals	82	57	70%	25	30%

Overall, for all 33 contracts we sampled, RES responded that only 137 (74%) of 185 persons that contractors listed on the hiring summaries were legal residents. Accordingly, they should not have been included in determining the moneys contractors spent to hire NYCHA residents.

Actual Costs Paid to NYCHA Residents Are Significantly Less Than Those Reported in Hiring Summaries

To determine the amounts spent on legal NYCHA residents, we reviewed the payroll and recorded all moneys paid to persons confirmed by TDS as legal NYCHA residents for the nine contracts in our sub-sample. In some instances, the contractors failed to list a resident in a particular hiring summary although the payroll records indicated that the resident worked during the period covered by the summary. In those instances, we gave the contractor credit for that worker. Based on the available payroll records, contractors expended \$581,387.82 in wages to legal NYCHA residents, \$384,658.55 (40%) less than the \$966,046.37 they reportedly paid as per the hiring summaries. The results of our analysis, segregated by contractor, are shown in Table IV below.

Table IV

Comparison of Amounts Reportedly Paid to Residents, According to Hiring Summaries,
And Amounts Paid to Legal NYCHA Residents Only (as Verified by TDS)
According to Payroll Records

Contract No.	Amount Paid To Residents As Reported In Hiring Summaries	Amount Paid To Verified Legal NYCHA Residents Only According to Payroll Records	Net Difference		Amount Overstated In Summaries	Amount Understated In Summaries
			C (B – A)	%		
	A	B			D	E
PD0200165	\$3,458.00	\$3,120.17	\$(337.83)	-10%	\$337.83	
PD0200044	6,867.90	6,645.91	(221.99)	-3%	255.89	33.90
DC9800016	40,192.00	40,192.00		0%	0	
ST9900020	112,549.47	114,769.17	2,219.70	2%	2,469.60	4,689.30
AB0100005	59,381.22	38,358.72	(21,022.50)	-35%	21,278.00	255.50
DC9800017	32,076.00	30,140.00	(1,936.00)	-6%	2,046.00	110.00
PE0100041	24,585.78	15,940.50	(8,645.28)	-35%	8,645.28	
AR9900019	563,306.00	247,237.35	(316,068.65)	-56%	316,068.65	
DC9800015	123,630.00	84,984.00	(38,646.00)	-31%	38,646.00	
Totals	\$966,046.37	\$581,387.82	\$(384,658.55)	-40%	\$389,747.25	\$5,088.70

As shown in Table IV, the contractor for the contract highlighted in the table actually underreported the amount paid to NYCHA residents for the period we reviewed.

Eight Percent of the Total Labor Cost for Nine Contracts Was Paid to NYCHA Residents

To determine whether the total amount paid to NYCHA residents during the contracts in our sub-sample met the 15-percent REP threshold, we identified the total labor cost expended on the contracts as reported on the last hiring summaries the contractors submitted. For the nine contracts, we reviewed all of the available payroll records for the persons who were verified through TDS to be legal NYCHA residents. We then calculated the percentage of total labor costs that constituted wages to legal residents. Based on our analysis, we found that the REP hiring requirement was met for only one of the nine contracts. Overall, we found that only eight percent of the labor expenditures was paid to NYCHA resident hires for the nine contracts. The results of our analysis segregated by the nine contracts are shown in Table V below.

Table V

Analysis of Contractor Compliance with Residency Hiring Requirement
For Nine Sampled Contracts

Contract #	Total Labor Cost as Reported in Hiring Summaries A	Minimum Amount That Should Be Paid To Resident Hires B (A x 0.15)	Actual Amount Paid to Legal Residents According to Payroll Data C	Net Difference D (B-C)	Actual REP Percentage E (C ÷ A)
PD0200165	\$147,998.00	\$22,199.70	\$9,219.69	\$12,980.01	6%
PD0200044	329,991.59	49,498.74	20,802.83	28,695.91	6%
DC9800016	376,727.36	56,509.10	40,192.00	16,317.10	11%
ST9900020	1,407,310.64	211,096.60	151,212.14	59,884.46	11%
AB0100005	533,013.52	79,952.03	42,032.97	37,919.06	8%
DC9800017	241,585.37	36,237.81	36,160.00	77.81	15%
AR9900019	4,205,379.95	630,806.99	365,511.00	265,295.99	9%
DC9800015	1,665,772.00	249,865.80	84,984.00	164,881.80	5%
PE0100041	168,419.18	25,262.88	15,940.50	9,322.38	9%
Totals	\$9,076,197.61	\$1,361,429.65	\$766,055.13	\$595,374.52	8%

As shown in Table V, for one contract (#DC9800017), payroll documentation indicates that 15 percent of the total labor costs were paid to resident hires. For the remaining eight contracts, the percentage of labor costs paid to NYCHA residents ranged from five to 11 percent.

REP Pilot Program Results Reveal That 67 Percent of Contracts Did Not Meet Resident-Hiring Requirement

Based on the information reported by NYCHA, 14 (67%) of 21 contracts that were included in the REP pilot program expended less than the required 15 percent of labor cost on resident hires. As of October 2003, 10 of the 14 contracts were at least 85 percent completed—the point at which RES stops monitoring a contractor’s compliance with REP requirements—yet NYCHA took no measures or sanctions against the contractors.

NYCHA provided us a list of 24 contracts that the officials stated were included in the REP pilot program. The list contained the total labor costs expended overall by contractors as well as the amount spent to hire NYCHA residents. Of the 24 contracts, letters of award were issued for three of them, but work was not started. Of the remaining 21 contracts, only 7 (33%) met the 15-percent threshold. The REP resident-hire percentages for another seven contracts were between 11 and 14 percent; the percentages for the remaining seven contracts were 10 percent or less. For two of the seven contracts, the REP resident-hire percentages were one percent and three percent.

However, NYCHA had little evidence that it took any action against these noncompliant contractors. In two instances, RES referred the contracts to the appropriate administering

department for corrective or punitive measures; however, to date no action (e.g., withholding of moneys) has been taken against the contractors.

In one case, at a time when the contract was 98 percent completed, a contractor had expended only nine percent of his labor costs to hire NYCHA residents. RES referred the case to the administering department with oversight of the contract through a memo, dated September 26, 2002, asking that \$38,667 be withheld from the contractor's next payment. However, no action was taken. In the other case, RES referred a contract to the administering department with oversight of the contract, on April 24, 2001, requesting that \$100,000 be withheld from the contractor. According to documents in this contract file, the contractor failed to hire NYCHA residents and to submit required hiring summaries after the specialist made numerous requests that he do so. However, no action was taken. (It should be noted that in spite of this contractor's refusal to comply with the terms of the contract, other contracts were awarded to this contractor.)

Other Weaknesses in NYCHA Monitoring of Contractor Compliance

In addition to the problems identified above, we found other weaknesses in monitoring that furthered hindered NYCHA's ability to ensure that contractors comply with residency hiring requirements. We found that there are limited controls to ensure that residents reportedly hired by contractors are actually on the job and working and that the contractor history reports contain inaccurate information regarding tenancy.

Limited Controls to Ensure That Resident Hires Are Actually On the Job and Working

NYCHA has limited controls to ensure that persons reported as resident hires by contractors are actually on the job and working. As a result, the potential for abuse exists.

As stated previously, CCU is responsible for visiting work sites and ensuring that residents are working. Based on a listing provided to us containing the site visits performed by CCU, the unit performed 397 site visits during the period February 2003 through December 2003, an average of 36 site visits a month. (Inspectors stated that they perform three to four visits in a day.) However, we found that visits are usually cursory.

When we accompanied inspectors to a number of work sites, we saw deficiencies that hinder inspectors' ability to verify that persons reported as resident hires by contractors were indeed working. First, inspectors did not have a current list of residents reported to be working on the contract. Instead, they brought an intake list, which contains names of residents who are eligible to work on an assignment. As stated previously, persons selected as resident hires are removed from the intake list and transferred to the employed list; therefore, the intake list would be of little use to inspectors to identify resident hires at the sites. Second, there was no record on site of the resident hires that reported to work that day. Persons were not required to sign in,² and resident hires did not necessarily work every day. As a result, inspectors did not know

² This practice has been changed. For contracts that were awarded before March 2003, contractors are required to sign in and record the number of persons scheduled to work that day. For all contracts awarded after March 2003, all persons working at a site are required to sign in at the start of the day.

before their site visit the residents who were working at the site, and they had to rely on the contractors to inform them of the persons who were working that day.

We visited five contract sites at four developments (one development had two contracts) and attempted to determine whether resident hires were actually on the job and working. However, we met with limited success. We were able to meet resident hires at only three of the five contract sites. (At one of the other sites, the contractor informed us that no resident hires were assigned to work on the day we visited. At the remaining site, the contractor informed us that the resident hire was being used to run errands and was not on-site at the time of our visit.) At the three sites where we did meet resident hires, contractors introduced us to six persons who were identified as resident hires. We verified that these six persons were legal NYCHA residents and were actually working at the site.

However, because we generally had to rely on the contractors to inform us of the residents working at the sites, we were not able to determine whether the contractors had absentee resident hires. To better determine the reliability of the resident-hire information reported by the contractors, we requested the wage and tax statements (W-2 forms) and cancelled payroll checks for our sub-sample of nine contracts covering Calendar Year 2003. For the nine contracts, one contractor did not respond to our request and another contractor either did not provide us W-2 forms or cancelled checks for the seven residents it reportedly hired.

For the persons identified for the remaining seven contracts, we compared the amounts paid according to the W-2 forms with the amounts paid according to the cancelled payroll checks. Overall, we were able to reconcile that amounts were paid as reported in both sources for only three of the seven contracts. For the remaining four contracts, we were unable to reconcile the two figures for various reasons. For example, in one contract, we were unable to reconcile because some of the payroll checks were not recorded in the records. For another contract, the contractor provided us with a payroll register indicating that a person worked during a period for which a previously submitted hiring summary and payroll documentation indicated the person did not work.

Although we found no evidence that contractors fraudulently reported that they hired NYCHA residents when they did not, we did find questionable items—no W-2 forms, unreconciled payroll—that indicate that NYCHA should institute stronger controls to ensure that persons reported as resident hires are actually on the job and working, and that the amounts reportedly paid to resident hires are actually being paid.

Lack of Adequate Controls over the Reporting of Resident Hires

There were discrepancies in the number of resident hires between the two databases that RES uses to monitor contractor compliance. In addition, the number of resident hires that specialists reported in the contractor history reports differed from the information that RES provided us when we requested TDS verification for reported hires. Overall, for six of the nine contractors in our sub-sample, the number of resident hires reported in the contractor histories differed from the number of hires that NYCHA informed us were legal NYCHA residents.

When a TDS clerk checks the TDS database to determine whether the individuals listed on a hiring summary are legal NYCHA residents, the clerk records the search results in the Contracts Hiring Summary Data Entry Report in the Section 3 database. The clerk forwards the summary to the specialist responsible for monitoring that contract, and the specialist is to update the contractor history report based on the results of the TDS verification. Therefore, the reported number of resident hires reported in the Section 3 database and the contractor history report should agree.

We requested the Contracts Hiring Summary Data Entry Report from the Section 3 database for the nine contracts in our sub-sample. We did not receive a Contracts Hiring Summary Data Entry Report for four of the nine contracts. However, for all five of the remaining contracts, the number of resident hires recorded in the Section 3 database did not agree with the number recorded in the contractor history reports. We also found differences between the number of legal NYCHA residents reported in the contractor history reports and the number provided to us by NYCHA through the TDS verification for seven of the nine contracts. Table VI below details the discrepancies.

Table VI

Summary of Discrepancies in Reported REP Hires
For Nine Contracts in Sub-Sample

Contract No	No. of Legal Residents as reported in Contractor History Report As of 12/03	No. of Legal Residents as reported in Section 3 Database	No. Legal Residents Provided to Auditors via a TDS Verification
PD0200165	2	##	4
PE0100041	4	##	4
AR9900019	2	3	9
PD0200044	4	##	5
AB0100005	0	2	5
DC9800016	1	##	1
DC9800017	1	2	2
DC9800015	17	19	18
ST9900020	7	10	9
Totals	38	36	57

- Contractor's hiring information was not entered in Section3 database

By not ensuring that there is a system in place to adequately account for contractors' hiring activities, NYCHA cannot accurately assess contractor compliance with REP obligations.

Recommendations

NYCHA should:

- 5. Institute better controls to verify that NYCHA residents whom the contractors reportedly hire are actually on the job and working.

NYCHA Response: “We agree. As stated in the audit report, contractors and employees, including resident hires, are required to sign in at their work sites at the start of the day. Additionally, the final procedures will outline the department responsible for verifying that residents are actually on the job.”

6. Reconcile the residency-hiring information recorded in the Section 3 and contractor history report databases so that the information in both databases agrees and is accurate.

NYCHA Response: “We agree. The department is currently reviewing and evaluating all existing databases in the Section 3/ Resident Employment Program with the goal of streamlining and integrating all functions and applications. We anticipate this process will take approximately four to six months.”

Conclusion

RES identified some weaknesses in a September 2003 monthly report. That report stated that there was a need for better communication between RES and the administering departments. NYCHA has also recently begun to make changes to the program. It is improving accountability at job sites by requiring all workers to sign in so that there is a record of those persons, including resident hires, who are working. Management has also encouraged specialists to improve follow-up efforts on contractors and to document their efforts in their case files and the contractor history database.

However, much remains to be done. NYCHA should ensure that it develops procedures that clearly identify the responsibilities of all parties associated with the program, ensures that those charged with monitoring contractors also have the authority to carry out their responsibilities, and develops reasonable penalties for contractor noncompliance, enforcing them when appropriate.



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June 18, 2004

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, N.Y. 10007-2341

RE: Draft Audit Report on the Administration of the
Resident Employment Program by the
New York City Housing Authority
Audit Number: MJ03-143A

Dear Mr. Brooks:

Thank you for your draft audit report commenting on the New York City Housing Authority's (NYCHA's) pilot Resident Employment Program. We have reviewed the report and our comments on the audit are listed below. Before getting into details on the audit, we believe that the full range of NYCHA's efforts to provide job opportunities to residents should be included in your report. It is also important to recognize that NYCHA's primary function is to provide safe and secure housing to 420,000 low and moderate income New Yorkers.

NYCHA is fully committed to creating job opportunities for its residents as demonstrated by its direct hiring of more than 4,100 NYCHA residents (about 30 per cent of our total workforce) for occupations as NYCHA employees. In addition, NYCHA, through the Department of Resident Employment Services (RES), attempts to identify and create job opportunities through training and employment contracts with community based organizations, and partnerships with private and public agencies. Through its contracting process, NYCHA attempts to create job opportunities via its Section 3 Program which targets contracts over \$100,000, the pilot Resident Employment Program which targets contracts over \$500,000 and now through our new Construction Management (CM) Build Program, which we anticipate, will create hundreds of permanent, highly skilled and highly paid trades apprentice jobs.

NYCHA developed the pilot Resident Employment Program to increase our commitment to create expanded employment opportunities for our residents since the Section 3 regulations only requires contractors to make a “best faith effort” and is not limited to residents. The Resident Employment Program was **not** a federal mandate, but an initiative NYCHA developed on its own to create jobs for our residents. Also, the pilot program was seen as a way to provide NYCHA with a better understanding on how best to efficiently and effectively create job opportunities that not only provide temporary employment but hopefully a career for our residents. At the same time, it is necessary to ensure that needed capital construction renovation and repair work is completed in an economical, timely and quality manner.

Although we believe your audit sample was limited, as your audit shows, NYCHA’s pilot Resident Employment Program success in creating jobs was impressive. Although we did not in all cases attain the ambitious fifteen percent hiring target, we did in all cases create jobs for our residents. This accomplishment occurred even though the program was severely impacted for many months by the September 11, 2001 destruction of our 90 Church Street-located database and other relevant documentation. In addition, all during the pilot stage, we have been strategizing on the optimum approach we can take to create good-paying, long-lasting jobs not only via the Resident Employment Program you audited but also with other additional innovative job creation efforts.

Our strategy efforts have led to the following initiatives:

- Establishing a Job Development Unit within the Resident Employment Services Department, the primary focus of which is to create employment opportunities by canvassing the business community to enlarge the pool of available jobs that match our resident skill levels.
- Creating a satellite office at the Manhattan-located Carver housing development to maximize the number of residents the department can accommodate by offering the same services.
- Establishing an education and training unit that monitors HUD-funded job placement and training contracts providing a variety of skills in demand. Additionally, this unit is responsible for establishing relationships with external training and education providers interested in offering training opportunities to NYCHA residents.
- Negotiating informal agreements with NYC One Stop Career Centers and offering a full array of job placement, training, workshops and other services as part of our portfolio.
- Working with a pool of employers that are conducting onsite recruitment to satisfy their vacancy needs. RES is marketing its services to employers as a full service entity providing, at no cost, screening, recruiting, and testing of academic levels.

These ongoing comprehensive job development and creation strategy initiatives, which started prior to your audit, have resulted in significant outcomes:

- (1) Our aggressive prevailing wage enforcement initiative, which started in March 2003, ensures that all our contractors pay prevailing wages. Since March 2003, NYCHA has initiated 149 prevailing wage investigations. Pending the outcome of those investigations, NYCHA is withholding \$1.8 million in payments to those contractors. In 2003 and 2004, NYCHA has collected \$715,598 and \$563,638 respectively for 132 workers who have been underpaid by contractors.
- (2) The reorganization of our Capital Projects Division includes the above-mentioned innovative CM/Build Program which requires the CM/Builders' subcontractors to employ qualified NYCHA residents who are enrolled in State-certified apprenticeship programs. We created the CM/Build Program specifically to provide long-term, high paying jobs for our residents.
- (3) As recognized by your audit, RES, the lead department responsible for creating economic, business and employment opportunities for our residents was reorganized in 2003. The mission and structure of the department was streamlined to solely focus on resident employment. Additionally, the Department's management team was changed, including the direct managers of the Section 3/ Resident Employment Program, in order to include staff with external expertise from the employment services sector. As part of that reorganization, NYCHA, in September 2003, hired a new Director, who formerly worked with the Consortium of Worker Education (one of the City's lead agencies for employment training and placement), and who has extensive experience in managing job training and creation programs.
- (4) More than 4,100 NYCHA employees are also residents of NYCHA housing developments. This number represents about 30 per cent of NYCHA's total work force.

Multiple NYCHA departments are now working together to ensure that the job creation synergism of this multi-faceted strategy is achieved, including completing the restructuring of RES and assessing the effectiveness of its services (including the pilot Resident Employment Program) and implementing the apprenticeship and the pre-apprenticeship programs. NYCHA plans to continue to take a holistic approach to job creation by ensuring that

- our residents receive appropriate training (both pre-apprenticeship and apprenticeship) to qualify for good paying jobs,
- NYCHA contractors hire residents, and
- prevailing wages are paid.

In addition, NYCHA departments are working closely together to ensure that key activities such as monitoring, documentation and enforcing contract provisions are effectively conducted, while confirming that modernization efforts at our developments continue unabated. In that regard, your audit report recommendations will receive our close attention as we finalize our Authority-

wide strategy to ensure that our residents are provided the opportunity to compete for, and obtain, high-paying, high-skilled and permanent employment.

Our responses to the six audit recommendations follow.

Comptroller Recommendation 1 – NYCHA Should Issue Formal Written Procedures

NYCHA Response

We agree. In March 2004, RES completed and distributed departmental procedures outlining the responsibilities of the Section 3/ Resident Employment Program specialists and the unit's monitoring processes. NYCHA's RES is working with all the cognizant departments, including Capital Projects, Equal Opportunity and Program Assessment & Policy Development to finalize the draft written procedures it currently has in place. It is anticipated that the final written procedures will be issued by the fall of 2004.

Comptroller Recommendation 2 – Coordinate the Efforts of Administering Departments

NYCHA Response

We agree. As previously mentioned in our response to Recommendation 1, the roles and processes of the Section 3/ Resident Employment Program staff were distributed and reviewed in March 2004 and NYCHA anticipates issuing final procedures in the fall of 2004. These procedures will clearly define the responsibilities of each department as well as management controls, objectives and steps to be taken to ensure contractor compliance.

Comptroller Recommendation 3 – Ensure Use of Correct Criteria to Evaluate Compliance

NYCHA Response

We agree. Internal staff training on Section 3/ Resident Employment Program procedures has been implemented to ensure uniformity throughout the unit in monitoring contracts and contractor compliance. Section 3 Specialists are aware of proper criteria when evaluating contractor compliance with respect to Resident Employment Program hiring requirements. Additionally, Department of Equal Opportunity (DEO) will assume a more active role, from the start of contract to its completion, and monitor contractor compliance with respect to prevailing wages and ensure that the appropriate labor costs are directed to resident hires by examining Hiring Plans and Payroll forms. DEO will forward findings to RES and the administering departments.

Comptroller Recommendation 4 – Develop List of Contracts

NYCHA Response

As mentioned in the Exit Conference, we believe our current computer system has an up-to-date listing of all contracts participating in the Resident Employment Program. Our inability in the past to provide such a list was a result of loss of records due to destruction of our 90 Church Street facilities caused by the September 11 attack.

Comptroller Recommendation 5 – Institute Better Controls To Track Job Attendance

NYCHA Response

We agree. As stated in the audit report, contractors and employees, including resident hires, are required to sign in at their work sites at the start of the day. Additionally, the final procedures will outline the department responsible for verifying that residents are actually on the job.

NYC Comptroller Recommendation 6 – Reconciliation of Databases

NYCHA Response

We agree. The department is currently reviewing and evaluating all existing databases in the Section 3/ Resident Employment Program with the goal of streamlining and integrating all functions and applications. We anticipate this process will take approximately four to six months.

Again, I thank you for the report and our shared commitment for NYCHA to continue to be a leader among public housing authorities in creating rewarding and full-time job opportunities for its residents.

If you have any questions, please call Tom Bittman, Director, Audit at (212) 306-3433.

Very truly yours,


Douglas Apple

cc: Susan Kupferman, Mayor's Office of Operations

Sherry Schuh/ Robert Podmore/ Hugh Spence/ Joseph Farro/ Sonia Toruella/
Sheila Greene/ Tom Bittman