

# AUDIT REPORT

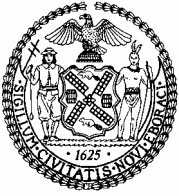


CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF FINANCIAL AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit of the Contract between the Salvation Army and the Department of Homeless Services for the Operation of the Carlton House**

*FP05-111A*

**November 21, 2005**



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

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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 examined the Salvation Army's compliance with its contract with Department of Homeless Services to operate and manage the Carlton House. The results of this audit, which are presented in this report, have been discussed with Department of Homeless Services officials, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that private concerns under contract with the City are complying with the terms of their agreements, properly reporting expenditures, and are receiving appropriate payments from the City.

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](mailto: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

**Report:** FP05-111A  
**Filed:** November 21, 2005

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

**Audit of the Contract between the  
Salvation Army and the Department of Homeless Services  
For the Operation of the Carlton House**

**FP05-111A**

**AUDIT REPORT IN BRIEF**

This audit determined whether the Salvation Army complied with the contract with the Department of Homeless Services (DHS) to operate and manage the Carlton House. Specifically, we examined whether the Salvation Army: maintained the Carlton House in a safe and sanitary condition, and carried out required inspections; provided adequate services to residents; had appropriate payroll, personnel, timekeeping, purchasing, and inventory procedures; maintained complete and accurate records to support all expenditures and amounts billed to DHS; and spent program funds on expenses that were reasonable and necessary for the operation of the Carlton House. The scope of this audit covered July 1, 2003, through June 30, 2004—Fiscal Year 2004.

**Audit Findings and Conclusions**

The Salvation Army generally maintained adequate records to support expenses and amounts billed to DHS for the operation of the Carlton House, and generally spent program funds on expenses that were reasonable and necessary. In addition, the Salvation Army complied with contract provisions for providing child care services, establishing evacuation procedures, and providing appropriate security services.

However, the Salvation Army did not comply with other contract terms. Specifically, the Salvation Army did not ensure that the Carlton House was maintained in a safe and sanitary condition and that it maintained documentation indicating that tenants' units were inspected regularly. In addition, the Salvation Army commingled funds received from DHS with funds from other Salvation Army programs; made payments from its general account that were not fully supported by the documentation; paid for items that were not delivered to the Carlton House; paid employees \$77,820 for undocumented hours; and did not maintain an inventory list of equipment or affix tags to the equipment.

In addition, DHS did not amend the contract and submit the amendment to the Comptroller for registration when it chose to increase the daily rate it paid the Salvation Army, contrary to the City's Procurement Policy Board (PPB) rules.

## **Audit Recommendations**

To address these issues, we make seven recommendations, including that DHS should ensure that:

- All contractors operating temporary emergency shelters maintain safe and sanitary conditions in the facilities.
- Contractors operating emergency shelters develop and implement formal procedures for inspecting residential units and should ensure that inspections are carried out in accordance with these procedures.
- Funds disbursed to contractors are not commingled with funds disbursed to contractors for non-related programs.
- Contractors maintain adequate documentation to support all wages paid to employees.

## **INTRODUCTION**

### **Background**

The Department of Homeless Services (DHS) provides temporary emergency shelter for eligible homeless families and individuals. Accordingly, DHS contracts with various organizations that operate shelters. DHS entered into a contract with the Salvation Army, a not-for-profit corporation, to operate and manage the Carlton House, a 335-unit transitional housing facility for homeless families at 138-10 135th Avenue in Queens.

Under the contract, which covers the period October 1, 2002, through September 30, 2007, the Salvation Army was to receive a daily per diem rate of \$150.07 per family from October 1, 2002, through June 30, 2003, and \$123.03 from July 1, 2003, through September 30, 2007. (DHS officials will, however, close the Carlton House on September 30, 2005, because of a lower-than-anticipated number of homeless families.) Total payments to the Salvation Army were not to exceed \$71,682,681 for the entire contract period. For the period covered by this audit—July 1, 2003, to June 30, 2004—the Salvation Army received \$17,391,358 from DHS.

### **Objectives**

The objectives of this audit were to determine whether the Salvation Army complied with the contract with DHS to operate and manage the Carlton House. Specifically, we examined whether the Salvation Army:

- maintained the Carlton House in a safe and sanitary condition, and carried out required inspections;

- provided adequate services to residents (child care services, evacuation procedures, and security services);
- had appropriate payroll, personnel, timekeeping, purchasing, and inventory procedures;
- maintained complete and accurate records to support all expenditures and amounts billed to DHS; and
- spent program funds on expenses that were reasonable and necessary for the operation of the Carlton House.

### **Scope and Methodology**

The audit covered the period from July 1, 2003, through June 30, 2004—Fiscal Year 2004.

To obtain an understanding of the procedures and regulations by which the Salvation Army is required to operate and maintain the Carlton House, we reviewed the contract, the Carlton House's *2003-2004 Operational Plan*, and the Salvation Army's Employee Manual. In addition, we reviewed the rules and regulations contained in the *New York State Office of Temporary and Disability Assistance Part 900*, which covers all DHS family residences. We interviewed Salvation Army and Carlton House staff to understand payroll, personnel, timekeeping, and purchasing procedures, and to determine how physical assets are safeguarded.

To determine whether the Salvation Army maintained the Carlton House in a safe and sanitary condition, we conducted an unannounced visit to the premises on October 6, 2004. We inspected the hallways, courtyards, playground, and a total of 77 of the premises' 335 units. We interviewed residents and photographed conditions. We also reviewed inspection reports filed by Carlton House personnel.

To determine whether the Salvation Army was properly billing DHS for operating the Carlton House, we examined the monthly bills submitted to DHS. To determine whether the Salvation Army properly deposited all payments from DHS, we reviewed the 12 monthly bank statements covering the period July 1, 2003, to June 30, 2004, all 808 canceled checks, and the 75 account deposits that took place during our audit period. We also established the source of the 75 deposits to determine whether the Salvation Army was commingling DHS and other funds.

To determine whether the Salvation Army maintained complete and accurate records to support its expenses for the Carlton House, we judgmentally selected 286 canceled checks based on expense type and reviewed corresponding invoices and receipts submitted by various vendors during Fiscal Year 2004. We determined whether these expenses were reasonable and necessary

for the operation and maintenance of the facility, and whether transactions were performed in accordance with applicable regulations.

To determine whether wages paid to Carlton House employees were properly supported by time records, we reviewed attendance records for all 159 employees. We examined the documents for completeness and for evidence of supervisory review. We compared the attendance records to the payroll records to determine whether all hours paid were documented on the time records. In addition, we examined annual leave accrual rates for December 2003 to determine whether Carlton House employees were credited with leave time in accordance with the employee manual. We performed a floor check for a random sample of 30 employees listed on the payroll register for the pay period ending March 17, 2005. We observed employees and inspected their photo identification cards to assess their status as bona fide employees. We performed a second floor check on June 8, 2005, to verify the status of 15 employees who were paid for hours during the pay periods tested, even though their time records did not provide evidence that they actually reported to work each day.

To determine whether the 22 employees who were separated from the Carlton House in Fiscal Year 2004 were processed properly, we examined separation payments for the 10 employees with the highest leave balances at their dates of separation. We determined whether those payments were properly calculated and whether the employees were appropriately removed from the payroll.

Finally, to determine whether the Salvation Army complied with other provisions of the contract, we determined whether child care, social services, and security services were provided to the residents, whether evacuation procedures were established, and whether inventory records were maintained.

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 Carlton House, Salvation Army, and DHS officials during and at the conclusion of this audit. A preliminary draft report was sent to Carlton House, Salvation Army, and DHS officials and was discussed at an exit conference held on September 29, 2005. On October 11, 2005, we submitted a draft report to Carlton House, Salvation Army, and DHS officials with a request for comments. We received a written response from DHS officials on October 31, 2005.

In its response, DHS stated that “The Department of Homeless Services concurs with the audit’s findings and believes that the recommendations reflect the enormous and unique challenges DHS faced in operating the largest homeless facility in the New York shelter system. These problems were compounded, because at that time, the homeless population was exploding and a facility had to be found and set up quickly in order to meet our shelter obligations.

Although the Carlton House is now closed, DHS treats the audit report's seven recommendations with the utmost seriousness because the recommendations help us to improve our oversight responsibilities."

The full text of the comments received is included as an addendum to this report.

## **FINDINGS AND RECOMMENDATIONS**

The Salvation Army generally maintained adequate records to support expenses and amounts billed to DHS for the operation of the Carlton House, and generally spent program funds on expenses that were reasonable and necessary. In addition, the Salvation Army complied with contract provisions for providing child care services, establishing evacuation procedures, and providing appropriate security services.

However, the Salvation Army did not comply with other contract terms. Specifically, the Salvation Army did not ensure that the Carlton House was maintained in a safe and sanitary condition and that it maintained documentation indicating that tenants' units were inspected regularly. In addition, the Salvation Army commingled funds received from DHS with funds from other Salvation Army programs; made payments from its general account that were not fully supported by the documentation; paid for items that were not delivered to the Carlton House; paid employees \$77,820 for undocumented hours; and did not maintain an inventory list of equipment or affix tags to the equipment.

In addition, DHS did not amend the contract and submit the amendment to the Comptroller for registration when it chose to increase the daily rate it paid the Salvation Army, contrary to the City's Procurement Policy Board (PPB) rules.

These matters are discussed in the following sections of this report.

### **Facility Not Properly Maintained**

The Salvation Army did not maintain the Carlton House in a safe and sanitary condition. According to the contract, the Salvation Army "shall maintain the Facility in a good state of repair and sanitation." However, all 77 (100%) of the residential units and many of the common areas we inspected had unsafe and unsanitary conditions. Specifically, we observed roach infestation; water damaged walls and ceilings; peeling paint; stained and frayed carpets; leaking sink and bathtub faucets; damaged appliances; and broken kitchen cabinets and doors. In addition, many of the residents complained that their units were infested with roaches, mice, or bedbugs. (See Appendix I for a list of the conditions.)

We informed DHS about these conditions in a letter dated October 15, 2004. (See Appendix I.) DHS responded by stating that staff from the Facilities and Families Services Divisions inspected the facility and "did confirm areas of concern and have identified corrective actions to be taken." (See Appendix II.)



## **Problems with Inspections**

The lack of proper maintenance can be attributed to the fact that the Salvation Army did not consistently follow its procedures that required Carlton House staff to conduct regular room inspections and maintain the premises. According to the documentation provided, there were no inspection reports for 101 (30%) of the 335 residential units. In fact, during the period of November 2003 through March 2004, inspection reports were provided for only 15 units.

The Salvation Army's *2003-2004 Operational Plan* for the Carlton House states, "Room inspections will be done on a regularly scheduled basis whenever possible." According to Carlton House's Director of Social Services, procedures require case workers to inspect every occupied unit twice a week and generate work orders for all conditions to be remedied. In addition, the contract requires that the Salvation Army "maintain the cleanliness of the entire Facility with periodic cleaning of public areas and each residential unit upon vacancy."

### **Recommendations**

DHS should ensure that:

1. All contractors operating temporary emergency shelters maintain safe and sanitary conditions in the facilities.
2. Contractors operating emergency shelters develop and implement formal procedures for inspecting residential units and should ensure that inspections are carried out in accordance with these procedures.

***DHS Response:*** "As part of the Agency's Strategic Plan Initiative of 2002, the Division of Facility Maintenance and Development introduced a new program, 'The Routine Site Review Inspection (RSRI).' This program was developed to be used as a measuring tool to monitor facility safety and sanitary conditions among other operational criteria.

"Additionally, DHS ensures that facilities maintain sanitary conditions in several ways. The Program Analysts in the Family Services division complete two audits per year, in addition to visiting sites frequently. Program Analysts complete a Shelter Monitoring Tool during the inspections. One aspect of monitoring involves inspections of the apartments, as well as, the physical plant. When deficiencies are noted, the providers are required to submit a corrective action plan within 30 days. The Program Analysts are then responsible for following up with the providers to ensure that the corrective action plan is implemented, and that the conditions are rectified. This includes conducting random visits to the sites. If the Provider fails to implement a corrective action plan, this is indicated in their Vendex rating.

"Providers are required to complete room inspections and to document the results in the case records. During the Program Analyst's audit, they review the case files to ensure that these inspections are occurring. For those residents who fail to keep their

units sanitary, the providers are expected to counsel these clients and provide assistance with housekeeping skills.

“The Family Services division works with our Facilities and Maintenance division to ensure that all facility plant deficiencies are monitored and corrected in order to ensure safe and sanitary conditions.

“During the twice-annual RSRI cycles, contractors will now be required to provide evidence – in the form of logs or inspection result forms – that regular facility inspections are carried out according to RSRI procedures and shelter monitoring protocols prescribed by FMD and program services.”

### **Improper Use of Funds**

The Salvation Army improperly commingled funds by using \$1,945,000 in Carlton House funding to pay expenses for non-related Salvation Army programs. According to the contract “funds shall not be commingled with funds from any other source.” Some of the commingled funds (\$785,000) were assigned to other programs, while \$1,160,000 was used to repay various loans made to the Carlton House. Moreover, the Salvation Army used \$2,596,888 in funding from other programs to pay for Carlton House expenses.

### **Recommendation**

3. DHS should ensure that funds disbursed to contractors are not commingled with funds disbursed to contractors for non-related programs.

**DHS Response:** “This requirement is stipulated in the contract with the Salvation Army (section 6.2 Initial Allocation - E): ‘The contractor shall establish and maintain within the City of New York a separate account as a depository for the funds provided under this agreement. The funds shall not be commingled with funds from any other source or with funds received under any other agreement.’ Apart from the contract stipulation, DHS monitors adherence through the bi-annual instrument and periodic audits of all providers.”

### **Problems with Payments to Vendors**

Our review of 286 payments for purchases of goods, maintenance and repairs, extermination, and food services in Fiscal Year 2004 identified the following problems with the Salvation Army’s procedures for paying vendors. Specifically:

- In 11 cases, vendors were paid a total of \$27,802 for invoices that were previously paid. Documentation indicated that only one of the duplicate payments, for \$10,143, was reimbursed by the vendor. After we informed Salvation Army officials about the other duplicate payments, we were provided with documentation showing that an additional \$16,939 was reimbursed or used as a credit towards future purchases.

- Three payments totaling \$5,545 were not fully substantiated by file documentation. After we informed Salvation Army officials about the lack of documentation, we were provided with documentation for two of the three payments, totaling \$5,260.
- There were 26 payments, totaling \$275,788, for which the files lacked original invoices. File documentation contained only photocopies, faxes of invoices, proposals, or account statements.
- One invoice was overpaid by \$300.
- There were two payments, totaling \$523, for goods that were delivered to another Salvation Army program site. Salvation Army officials affirmed that the items were ultimately delivered to the Carlton House.

We also found problems with the Salvation Army’s procedures for ordering and receiving material and equipment for the Carlton House. For 153 of 162 payments for purchased items, the files did not contain sufficient evidence that the items were counted and inspected upon receipt. In addition, there was no documentation for 54 of the 162 payments to indicate that Salvation Army or Carlton House employees had approved the purchases prior to payment.

The contract requires that the Carlton House implement controls to ensure that items purchased are counted and physically inspected when received. Supervisory review and approval before delivery is important to ensure that only items necessary for the operation of the facility are ordered and paid for.

**Recommendation**

4. DHS should require contractors that operate emergency shelters to implement a supervisory payment review process to ensure that all necessary documents are on file and that necessary approvals are obtained.

*DHS Response:* “DHS monitors compliance through bi-annual shelter monitoring instruments and periodic audits of providers. We are exploring ways to improve the review of the payment process.”

**Problems with Timekeeping**

Our review of timekeeping records for Carlton House employees disclosed the following exceptions:

- 34 employees were paid \$13,615 for 1,120 hours that were not properly documented. In these cases, the employees’ start and finish times were recorded on the time records after the work week ended, as evidenced by adjustments made to the timekeeping system. There was no evidence to indicate whether these employees actually reported to work at these times or the basis for the adjustments;

- 55 employees were paid \$12,434 for 1,043 hours for which time records did not indicate daily start and finish times. Once again, there was no evidence to indicate whether these employees actually reported to work at these times;
- 40 employees were paid \$17,061 for 1,496 hours that were not listed on their timekeeping records; and
- 22 employees were paid \$34,711 for 1,743 hours for which timesheets were not on file.

As a result of these timekeeping problems, Carlton House employees were paid \$77,820 for 5,402 undocumented work hours.

### **Recommendation**

5. DHS should ensure that contractors maintain adequate documentation to support all wages paid to employees.

*DHS Response:* “DHS will stress the importance of the certification statement attached to the monthly billing, attesting to the accuracy of the documents. We are also meeting with responsible DHS departments to implement oversight procedures to improve maintenance of documentation.”

### **Lack of Inventory Controls**

The Salvation Army did not maintain an inventory list of all the physical assets at the Carlton House, including computers, printers, and fax machines. The contract requires that the Salvation Army implement inventory procedures to “ensure that the Contractor maintains accurate records to account for all equipment, furnishings and supplies purchased with Department funds.” Maintaining adequate inventory controls is important to ensure that physical assets are properly safeguarded. Carlton House officials informed us that they were in the process of compiling an inventory list and tagging all equipment. However, we were not provided with any documentation to verify this claim.

### **Recommendation**

6. DHS should ensure that emergency shelter contractors establish and maintain inventory records, inventory procedures, and affix tags to the equipment to ensure that physical assets are properly safeguarded.

***DHS Response:*** “We will review inventory controls during visits to the facilities and through periodic audits conducted by the agency.”

**Other Issue: Failure to Adhere to PPB Rules**

As previously stated, under the contract the Salvation Army was to receive a daily per diem rate of \$123.03 per family from July 1, 2003, through September 30, 2007. Under these terms, DHS would have paid the Salvation Army \$13,383,819 for the 108,785 care days that the Salvation Army provided. Instead, DHS paid the Salvation Army \$17,391,358 (\$159.87 per family per day—a difference of \$4,007,539) based on new needs request forms submitted by the Salvation Army.

The contract permits the Salvation Army to “seek an increase in the rate” to pay for increases in the cost of providing legally required services, and DHS can approve such an increase in the rate “provided that such change has been agreed to in writing by the parties . . . and all necessary approvals are received by the Department.” In addition, DHS did not amend the contract and submit the amendment to the Comptroller for registration, as required by the PPB rules. Although DHS provided documentation to substantiate the additional costs, PPB rules state that “all contracts, agreements, contract changes, change orders, amendments, modifications, contract time extensions, and ‘Buy-Against’ procurements shall be presented to the Comptroller for registration.” Amending contracts when significant cost revisions and changes occur and submitting such amendments for registration are important safeguards for ensuring that City funds are used properly.

**Recommendation**

7. DHS should adhere to PPB rules by amending all contracts and registering them with the Comptroller’s Office to reflect appropriate changes in per diem rates.

***DHS Response:*** “DHS adheres to PPB rules by amending all contracts and registering them with the Comptroller’s Office to reflect changes in per diem rates. Meetings are held every fortnight among Programs, Budget, and ACCO to discuss what contracts require adjustment and determine timetables and deliverables to effectuate the required changes.”



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Greg Brooks  
DEPUTY COMPTROLLER  
POLICY, AUDITS, ACCOUNTANCY & CONTRACTS

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

October 15, 2004

The Honorable Linda Gibbs  
Commissioner  
Department of Homeless Services (DHS)  
33 Beaver Street  
New York, NY 10004

Dear Commissioner Gibbs:

I am writing to alert you to unsafe and unsanitary conditions at the DHS-contracted shelter for homeless families and individuals—the Carlton House. These conditions were discovered by my auditors on October 6, 2004, and require action by your agency.


Our office started an audit of the Salvation Army's operation of the Carlton House under its agreement with DHS (in accordance with our October 7, 2004 engagement letter). One of our objectives is to determine whether the Carlton House maintains the premises in a safe and sanitary condition. In 54 of the 77 occupied apartments that our auditors gained access to, the auditors found problems that included water damaged ceilings, leaking and damaged plumbing, roaches, peeling paint, and dirty and frayed carpets. The auditors found water damaged and buckling ceilings in the hallway, a missing section of the guardrail on the roof, and plants growing out of cracks in the roof. Finally, many residents complained of roaches, mice, and bedbugs in their rooms.

The Comptroller's Office is concerned that these problems, which affect the health and safety of the residents, be addressed. I am requesting that your office take action to ensure that these conditions are corrected. In addition, DHS should ensure that the operator of the Carlton House maintains the premises in a safe and sanitary manner in accordance with the terms of its contract.

A list of the various conditions in the rooms (Attachment A) and photographs of conditions (Attachment B) is attached to this letter. In addition, I am enclosing a CD-ROM of all photographs taken by my auditors during their visit.

Please inform me of the results of your investigation, and what actions you will take to remedy the situation. Thank you for your attention to this matter.

Yours truly,

  
Greg Brooks

GB/GR  
Enc.

cc: Michael King, Director of Audit  
Robert Bernstein, Mayor's Office of Operations

**The Carlton House**  
138-10 135th Avenue  
Queens, New York  
Date of Visit: 10/6/2004

Room #	Observations	Tenant Complaints
102	Soap dish missing Bathroom light flickering	N/A
103	N/A	Mice and Roaches
104	N/A	Mice and Roaches
107	Water leak*	N/A
111	N/A	Roaches and Bedbugs
114	Water damaged ceiling*	N/A
121	N/A	Heat Problems
127	Towel rack falls off	N/A
129	N/A	Mice and Roaches
147	Electric outlet missing parts	Mice and Roaches
156	N/A	Mice and Roaches
202	N/A	Roaches
206	N/A	Roaches
214	N/A	Mice and Roaches
229	Stained carpet*	N/A
241	N/A	Mice and Roaches
301	N/A	Mice and Bedbugs
303	Client with bottle of bedbugs*	Mice and Bedbugs
306	Broken front door	Roaches
312	Roach on table and inside holes of bed frame*	N/A
401	Frayed carpet	N/A

N/A - Not Applicable

\* Photograph was taken

Room #	Observations	Tenant Complaints
404	Bathtub faucet leaks*	N/A
405	Water leaks in living room*	N/A
406	Broken toilet	Mice and Roaches
411	Roach on wall*	N/A
422	N/A	Heat Problems
425	Roaches in kitchen cabinet and on glue traps*	N/A
429	Frayed carpet	Roaches
438	Broken oven	N/A
503	Frayed carpet	Bedbugs
505	Broken toilet	N/A
508	N/A	Rodents
512	Broken oven Broken refrigerator handle	N/A
513	N/A	Mice and Roaches
514	Roaches in bathroom, kitchen, and under mattress*	N/A
530	Roaches under mattress* Water damaged ceiling*	N/A
601	Water damaged ceiling* Stained carpet*	Mice and Roaches
602	Broken toilet	Mice
604	Roaches on glue trap in bathroom and near refrigerator*	N/A
608	N/A	Mice, Roaches, and Bedbugs
610	N/A	Mice and Bed Bugs
613	N/A	Roaches
616	N/A	Sink Leaks
622	Peeling paint*	N/A

N/A - Not Applicable

\* Photograph was taken



Room #	Observations	Tenant Complaints
626	N/A	Bedbugs and Roaches
629	N/A	Mice, Roaches, and Bedbugs
633	Mice droppings on top of refrigerator*	Roaches
635	Peeling paint* Frayed carpet	Mice and Roaches
637	Frayed carpet Broken toilet	N/A
702	Frayed carpet*	N/A
708	Roach on wall*	N/A
718	Cracked ceiling above window*	N/A
725	Bathroom door broken Kitchen cabinets separating from wall* Broken kitchen cabinet doors* Roach on wall*	Roaches
727	Water damaged ceiling* Bathtub faucet leaks	N/A
729	Missing refrigerator part*	N/A
731	N/A	Problems with air conditioner unit Roaches
732	Roaches in bathroom*	N/A
735	N/A	Roaches
737	Roach on wall*	N/A
802	Roach on top refrigerator*	N/A
808	Broken toilet	Roaches
810	Bathtub faucet leaks*	N/A
813	Dead roaches on countertop and floor*	N/A
815	Roaches on glue trap*	N/A

N/A - Not Applicable

\* Photograph was taken

Room #	Observations	Tenant Complaints
824	Hole in ceiling*	Roaches
825	Roach on plate*	Roaches
826	Bathroom lock missing*	N/A
831	N/A	Mice
833	Roach in bathtub*	N/A
838	Frayed carpet	N/A
902	Peeling paint* Frayed carpet* Hole behind door*	N/A
905	Bathtub faucet leaks Roach in eating bowl* Frayed carpet*	Mice Air conditioner leaks
908	Closet door missing Broken toilet* Sink cracked*	N/A
909	Frayed carpet	Rats
916	Peeling paint*	Mice
933	Holes in closet* Broken toilet* Frayed carpet* Peeling paint*	N/A
938	Peeling paint*	Mice and Roaches
3rd Floor Hallway	Roaches on wall*	N/A
7th Floor Hallway	Portion of ceiling buckling* Trash in front of garbage chute* Hole in wall by staircase*	N/A
8th Floor Hallway	Frayed carpet* Missing cover for fire extinguisher casing* Light cover missing on ceiling* Broken door knob*	N/A

N/A - Not Applicable

\* Photograph was taken

Room #	Observations	Tenant Complaints
9th Floor Hallway	Wallpaper ripped* Water damaged ceiling* Hole in ceiling*	N/A
Building Roof	Grass growing on rooftop floor* Decayed rooftop floor* Missing rail around rooftop*	N/A

N/A - Not Applicable

\* Photograph was taken

Room 425  
Roaches in Kitchen Cabinet



7<sup>th</sup> Floor Hallway  
Hole in Wall



7<sup>th</sup> Floor Hallway  
Trash in Front of Garbage Chute



Room 718  
Cracked Ceiling above Window



Room 813  
Roaches on Countertop



9<sup>th</sup> Floor Hallway  
Hole in Ceiling



Building Roof  
Decayed Rooftop Floor





NYC Department of Homeless Services

Linda Gibbs  
Commissioner

DEC 10 2004

December 7, 2004

Greg Brooks, Deputy Comptroller  
The City of New York Office of the Comptroller  
Executive Offices  
1 Centre Street  
New York, NY 10007-2341

Dear Deputy Comptroller Brooks:

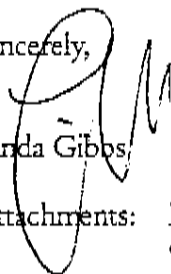
Upon receipt of your October 15<sup>th</sup> letter regarding conditions at the Carlton House, and the call you placed to me expressing your concerns, I directed staff from DHS' Facilities and Families Services Divisions to immediately inspect the Salvation Army operated building. I appreciate the quick action you took on this information. I am grateful we found no immediate health or safety threat at the facility but we did confirm areas of concern and have identified corrective actions to be taken.

The DHS inspection team concurred with two of your concerns, related to the condition of the roof and the presence of vermin. I want to thank you for your attention to these issues. In response, DHS is aggressively monitoring the Salvation Army's compliance with improved building management.

- The conditions regarding the roof and 9<sup>th</sup> floor wall damage were known to and acted upon by DHS. The Salvation Army has submitted a funding request to DHS for a new roof. This request is currently under review, and although a final determination in terms of cost and timing has not yet been made, DHS' Facilities Division recommends that the roof be repaired at this time rather than replaced entirely. The 9<sup>th</sup> floor wall was repaired on October 21, 2004. This had been scheduled prior to the receipt of your letter and was done only after sufficient time to dry was allowed.
- The Family Services and Facilities Maintenance Divisions are working with the Salvation Army to create a more appropriate and aggressive extermination schedule; thus far the Salvation Army has utilized their extermination contract on an as needed basis and when extermination has occurred, it has been done inadequately. In addition, the Division of Family Services will work with the Salvation Army to improve case management so that clients are educated about and strictly adhere to some basic housekeeping principles that will greatly diminish the lure to pests.



I want to assure you that the issues outlined above cause DHS great concern, particularly as these have occurred in a new facility. The overall condition of the building meets the basic requirements of a Tier II shelter in terms of safety and health considerations. Attached, please find documents describing in detail each of the items outlined above. Please feel free to contact me if you require clarification on any of these issues.

Sincerely,  
  
Linda Gibbs

Attachments: Roof Repair Plan  
Corrective Action Plan

## CARLTON HOUSE ROOF REPAIR PLAN

December 1, 2004

Commencing on or about Jan 15, 2004, DHS was first made aware of visible interior ceiling damage at the subject facility as a direct result of water infiltration from a damaged roof membrane. DHS was, at that time, presented with a request from the leaseholder of the facility and contract provider, the Salvation Army, for the cost of replacing the entire roof membrane at approximately \$750,000.

Upon review of the request and subsequent investigation at the site by the Department of Homeless Services and Facilities Maintenance and Development, it was determined that the existing roof membrane had at least 2-4 years of life remaining and DHS could not recommend a contract modification to cover membrane replacement. It was also determined that DHS's capital and expense budgets, while having scarce funds available for true emergency roof repair situations, could not accept this situation as an actual emergency and, therefore, could not fund the replacement. The Salvation Army was instructed to facilitate local repairs to the roof membranes in an attempt to stem the leakage at certain locations at the top floor.

Beginning in the spring of 2004, several attempts at local roof repairs were performed and, in certain instances, isolated leaks were cured. Others, such as the leak above a large portion of a sheetrock ceiling at the 9<sup>th</sup> floor corridor, have not yet been isolated or cured. Here, a more local solution involving removing damaged sheetrock and ventilating the area has been temporarily successful. The addition of a decorative ceiling grille to cover the open hole in the ceiling has been completed the repair, in addition to replacement of all damaged corridor drywall surfaces on October 21, 2004, pending full replacement of the roof membrane and/or early identification of the precise source of the water infiltration.

DHS is fully aware of the condition of the roof membrane and has been in constant coordination with the Salvation Army since the damaged ceiling areas first became visible. The two agencies will continue to perfect a local repair solution until such time as a full replacement roof membrane is warranted and funding is identified.

Listed below is the Corrective Action Plan that has been implemented by the Salvation Army based on the Comptroller's pre-audit visit of the Carlton House on October 6, 2004. The Corrective Action Plan addresses programmatic issues, as well as the sanitary conditions of the facility.

1. Effective November 10, 2004 monthly meetings with the Salvation Army management staff will be scheduled to review operations, programs and financial issues, and to ensure that all deficiencies are addressed.
2. Biweekly and monthly site visits will be conducted by the Program Analyst and the Program Administrator respectively to monitor adherence to the corrective action plan. During these visits, a report of findings and necessary corrective actions will be provided to the Director and Salvation Army executives. Each visit will be followed by a written report detailing the findings and requesting a corrective action plan within five business days. There are to be part of existing visits that occur (see attached facility visit schedule).
3. Effective immediately, the provider will increase the frequency of apartment inspections from twice per week to three times per week. The provider must be able to access all units. Social service staff will inform clients via house meetings and in writing that they must maintain their units in a clean and sanitary manner.
4. The provider will implement housekeeping and good neighbor workshops to help clients develop and improve housekeeping skills.
5. Clients who continue to maintain unsanitary conditions in their units will be counseled and will have privileges suspended until they comply.
6. The provider will implement an apartment inspection report for each unit, indicating the physical and housekeeping condition for each apartment. All physical deficiencies will be referred to the maintenance department for corrective action within a timely manner.
7. The provider will implement a work order log for each deficiency. This work order log will be made available to the Program Analyst during bi-weekly visits.
8. The provider will ensure that apartment access is granted to the exterminator for all units during weekly visits. The provider will also assign a staff person(s) with master key access to escort the exterminator to apartments and common areas.
9. The extermination frequency will increase to twice per week at four hour sessions to address the vermin problem. The provider is currently accepting bids to identify whether another vendor can provide equal or better services.



NYC Department of Homeless Services

Linda Gibbs  
Commissioner

Steve Pock  
Deputy Commissioner  
Fiscal Operations

Lula Urquhart  
Assistant Commissioner  
Budget & Audit

October 31, 2005

Gregory Brooks, Deputy Comptroller  
for Policy, Audits, Contracts and Accountancy  
1 Centre Street  
New York, NY 10007

Dear Deputy Comptroller Brooks:

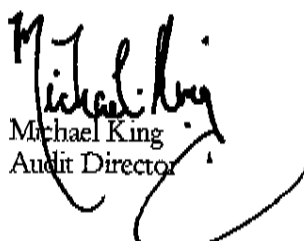
I am writing in response to your office's draft audit report on the "*Contract between the Salvation Army and the Department of Homeless Services Operation of the Carlton House*" (FP05-111A). The Department of Homeless Services concurs with the audit's findings and believes that the recommendations reflect the enormous and unique challenges DHS faced in operating the largest homeless facility in the New York shelter system. These problems were compounded, because at that time, the homeless population was exploding and a facility had to be found and set up quickly in order to meet our shelter obligations.

Although the Carlton House is now closed, DHS treats the audit report's seven recommendations with the utmost seriousness because the recommendations help us to improve our oversight responsibilities. Although the recommendations contained in the report are procedures stipulated in our contracts with all providers, DHS is aggressively monitoring providers' compliance with the provisions of their contracts. As you are aware, when you informed us in your October 2004 letter of potentially troubling situations at the Carlton House, we responded immediately and found no immediate health or safety threat at the facility but confirmed areas of concern and moved quickly to remedy the situation.

DHS has implemented a number of control procedures which improves our oversight of providers. Our Facility Maintenance and Development (FMD) department has introduced "The Routine Site Review Inspection" (RSRI) that is a measuring tool to monitor facility safety, sanitation and other operational criteria. Also, FMD now requires that contractors provide evidence that regular facility inspections are carried out according to the RSRI procedures. DHS Programs use the Shelter Monitoring Instrument to determine the condition of a facility and, when necessary, has the facility take corrective action to rectify conditions.

DHS is committed to ensuring that our clients live in a healthy and safe environment while improving our operational controls to maximize our efficiency and effectiveness.

Sincerely,

  
Michael King  
Audit Director



Attachments

C: Linda Gibbs  
Roger Newman  
Lula Urquhart  
Jim Anderson

Steve Pock  
Robert Skallerup  
Suellen Schulman  
Robert Bernstein

Julia Davis Moten

NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

RESPONSE DATE: October 31, 2005

AUDIT TITLE: Audit of the Contract between the Salvation Army and the  
Department of Homeless Services for the Operation of the Carlton House  
AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

A. RECOMMENDATION #1 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should ensure that all contractors operating temporary emergency shelters maintain safe and sanitary conditions in the facilities.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

As part of the Agency's Strategic Plan Initiative of 2002, the Division of Facility Maintenance and Development introduced a new program, "The Routine Site Review Inspection (RSRI)." This program was developed to be used as a measuring tool to monitor facility safety and sanitary conditions among other operational criteria. With 93% of the homeless shelters contracted out to non-for-profit organizations to run social service programs and facility operations, it became apparent to DHS that a regular review of shelter conditions and adult and family residential units was necessary. Inspections are performed twice a year and are rated on the cleanliness, state of repair of building infrastructure (safety), mechanical systems, and facility operations management. This information is used to track changes in conditions, monitor contract compliance and/or modification, and assist in performance evaluations (VENDEX).

Since starting the program in January 2004, the Carlton House has had two full inspections and one partial. The full inspections occurred on March 24, 2004 and April 12, 2005 with scores of Unsatisfactory and Satisfactory respectively. The partial inspection (approximately 20% of the building) was conducted on October 28, 2004 and the score was Needs Improvement. The scores for each inspection have progressively improved but still fall below the system average. (See Appendix)

Carlton House

Inspection Date	Cleanliness	Building Integrity	Management	Weighted Score	Condition Factor
3/24/2004	49	50	54	50	49%
10/28/2004	70	58	63	66	56%
4/12/2005	73	70	74	72	54%
<b>Average</b>	<b>64</b>	<b>59</b>	<b>63</b>	<b>62</b>	<b>53%</b>

Additionally, DHS ensures that facilities maintain sanitary conditions in several ways. The Program Analysts in the Family Services division complete two audits per year, in addition to visiting sites frequently. Program Analysts complete a Shelter Monitoring Tool during the inspections. One aspect of monitoring involves inspections of the apartments, as well as, the physical plant. When deficiencies are noted, the providers are required to submit a corrective action plan within 30 days. The Program Analysts are then responsible for following up with the providers to ensure that the corrective action plan is implemented, and that the conditions are rectified. This includes conducting random visits to the site. If the Provider fails to implement a corrective action plan, this is indicated in their Vendex rating.

Providers are required to complete room inspections and to document the results in the case records. During the Program Analyst's audit, they review the case files to ensure that these inspections are occurring. For those residents who fail to keep their units sanitary, the providers are expected to counsel these clients and provide assistance with housekeeping skills.

The Family Services division works with our Facilities and Maintenance division to ensure that all facility plant deficiencies are monitored and corrected in order to ensure safe and sanitary conditions.

NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

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AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

IMPLEMENTATION TARGET DATE  
Ongoing

RESPONSIBILITY CENTER  
Facilities Maintenance and Development  
Family Services

Signature:

Date:

  
Print Name: Robert M. Skallerup, Jr.

11.1.05

Print Title: Deputy Commissioner, Facilities Maintenance and Development

Signature:

Date:

  
Print Name: Julia Davis Moten  
Print Title: Assistant Commissioner, Family Services

10/31/05

NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

RESPONSE DATE: October 31, 2005

AUDIT TITLE: Audit of the Contract between the Salvation Army and the  
Department of Homeless Services for the Operation of the Carlton House  
AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

A. RECOMMENDATION #2 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should ensure that contractors operating emergency shelters develop and implement formal procedures for inspecting residential units and should ensure that inspections are carried out in accordance with these procedures.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

During the twice-annual RSRI cycles, contractors will now be required to provide evidence - in the form of logs or inspection result forms - that regular facility inspections are carried out according to RSRI procedures and shelter monitoring protocols prescribed by FMD and program services. Appropriate language has been added to our standard contract boilerplate with providers. (See Appendix)

IMPLEMENTATION TARGET DATE

Ongoing

RESPONSIBILITY CENTER

Facilities Maintenance and Development

Signature:

Date:



Print Name: Robert M. Skallerup, Jr.

Print Title: Deputy Commissioner, Facilities Maintenance and Development

11.1.05



NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

RESPONSE DATE: October 31, 2005

AUDIT TITLE: Audit of the Contract between the Salvation Army and the  
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AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

A. RECOMMENDATION #3 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should ensure that funds disbursed to contractors are not commingled with funds disbursed to contractors for non-related programs.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

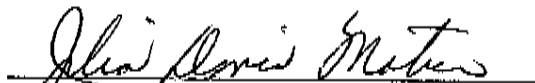
This requirement is stipulated in the contract with the Salvation Army (section 6.2 Initial Allocation-E): "The contractor shall establish and maintain within the City of New York a separate account as a depository for the funds provided under this agreement. The funds shall not be commingled with funds from any other source or with funds received under any other agreement." Apart from the contract stipulation, DHS monitors adherence through the bi-annual monitoring instrument and periodic audits of all providers.

IMPLEMENTATION TARGET DATE

Ongoing

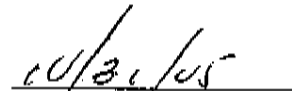
RESPONSIBILITY CENTER  
Family Services

Signature:



Print Name: Julia Davis Moten  
Print Title: Assistant Commissioner, Family Services

Date:

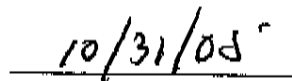


Signature:



Print Name: Lula Urquhart  
Print Title: Assistant Commissioner, Budget and Audit

Date:



NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

RESPONSE DATE: October 31, 2005

AUDIT TITLE: Audit of the Contract between the Salvation Army and the  
Department of Homeless Services for the Operation of the Carlton House  
AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

A. RECOMMENDATION #4 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should require contractors that operate emergency shelters to implement a supervisory payment review process to ensure that all necessary documents are on file and that necessary approvals are obtained.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The DHS Human Services Payment Procedures stipulates: "At the beginning of the contract term and at any time during the course of the contract as necessary, each provider shall designate a financial officer who will certify and attest to the accuracy of the monthly billings and all associated documents. Each billing submitted must include the statement below and the signature of the financial officer."

Certification: I hereby certify that the changes reported herein have been incurred for services provided pursuant to the terms of the contract with the City of New York acting by and through the New York City Department of Homeless Services; that the itemized invoices, supporting documents and records evidencing payment are in the files of this organization and are available to the New York City Department of Homeless Services and other entities with the requisite authority to inspect and audit such documents; that the charges are just, true and correct; and that no part thereof has been previously included in an invoice to the City of New York, paid, satisfied or otherwise settled.

DHS monitors compliance through bi-annual shelter monitoring instruments and periodic audits of providers. We are exploring ways to improve the review of the payment process.

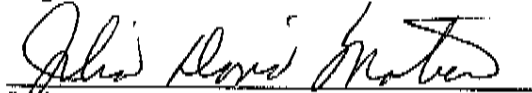
IMPLEMENTATION TARGET DATE

Ongoing

RESPONSIBILITY CENTER

Family Services

Signature:



Print Name: Julia Davis Moten  
Print Title: Assistant Commissioner, Family Services

Date:

10/31/05

Signature:



Print Name: Lula Urquhart  
Print Title: Assistant Commissioner, Budget and Audit

Date:

10/31/05

NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
AUDIT SERVICES

RESPONSE DATE: October 31, 2005

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AUDITING AGENCY: City of New York, Office of the Comptroller  
REPORT DATE: October 11, 2005

A. RECOMMENDATION #5 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should ensure that contractors maintain adequate documentation to support all wages paid to employees.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

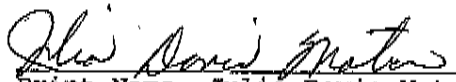
DHS will stress the importance of the certification statement attached to the monthly billing, attesting to the accuracy of the documents. We are also meeting with responsible DHS departments to implement oversight procedures to improve maintenance of documentation.

IMPLEMENTATION TARGET DATE

Ongoing

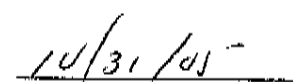
RESPONSIBILITY CENTER  
Family Services

Signature:

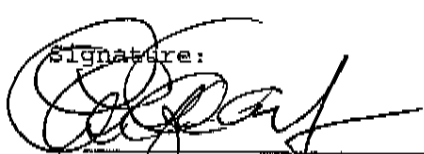


Print Name: Julia Davis Moten  
Print Title: Assistant Commissioner, Family Services

Date:

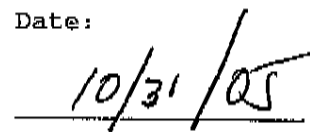


Signature:



Print Name: Lula Urquhart  
Print Title: Assistant Commissioner, Budget and Audit

Date:



RESPONSE DATE: October 31, 2005

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A. RECOMMENDATION #6 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should ensure that emergency shelter contractors establish and maintain inventory records, inventory procedures, and affix tags to the equipment to ensure that physical assets are properly safeguarded.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

All DHS contracts with providers stipulate that:  
Contractor shall submit for approval, within (10) days of the commencement of its contract with the Department inventory maintenance procedures. The inventory maintenance procedures shall be designed to ensure that the Contractor maintains accurate records to account for all equipment, furnishings and supplies purchased with Department funds.

We will review inventory controls during visits to the facilities and through periodic audits conducted by the agency.

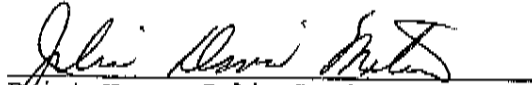
IMPLEMENTATION TARGET DATE

Ongoing

RESPONSIBILITY CENTER

Family Services

Signature:



Print Name: Julia Davis Moten  
Print Title: Assistant Commissioner, Family Services

Date:

10/31/05

Signature:



Print Name: Lula Urquhart  
Print Title: Assistant Commissioner, Budget and Audit

Date:

10/31/05

NEW YORK CITY DEPARTMENT OF HOMELESS SERVICES  
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A. RECOMMENDATION #7 WITH WHICH THE MANAGEMENT  
AGREES AND INTENDS TO IMPLEMENT

DHS should adhere to PPB rules by amending all contracts and registering them with the Comptroller's Office to reflect appropriate changes in per diem rates.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

DHS adheres to PPB rules by amending all contracts and registering them with the Comptroller's Office to reflect changes in per diem rates. Meetings are held every fortnight among Programs, Budget, and ACCO to discuss what contracts require adjustment and determine timetables and deliverables to effectuate the required changes.

IMPLEMENTATION TARGET DATE

Ongoing

RESPONSIBILITY CENTER

Budget and ACCO

Signature:

Lula Urquhart

Print Name: Lula Urquhart

Print Title: Assistant Commissioner, Budget and Audit

Date:

10/31/05

Signature:

Suellen Schulman

Print Name: Suellen Schulman

Print Title: Agency Chief Contracting Officer

Date:

11/1/05