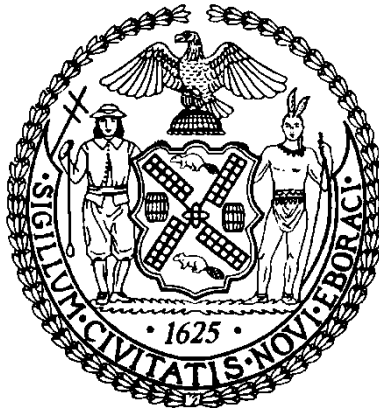


**CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
John C. Liu  
COMPTROLLER**

**BUREAU OF MANAGEMENT AUDIT  
H. Tina Kim  
Deputy Comptroller for Audit**



**Audit Report on the Monitoring of the  
Work Advantage Program by the  
Department of Homeless Services**

*MG10-060A*

**July 15, 2010**

<http://comptroller.nyc.gov>



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

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John C. Liu  
COMPTROLLER

July 15, 2010

**To the Residents of the City of New York:**

My office has audited the controls of the Department of Homeless Services (DHS) over its Work Advantage (WADV) program. We audit City entities such as this as a means of increasing accountability and ensuring that City programs operate as intended and in the best interest of the public.

The audit found that DHS has not instituted sufficient controls to ensure that the WADV program is carried out in full accordance with its guidelines. In part, this is the result of its failure to update and distribute guidelines to DHS staff on a timely basis, which has led to inconsistencies in how staff carry out procedures. In addition, DHS has failed to implement sufficient controls to deal with side deals—situations in which tenants are forced to pay additional rent payments outside their lease agreements. Furthermore, DHS has failed to establish sufficient policy and procedures to better ensure that clients are not placed in buildings with unsafe or hazardous conditions. Finally, DHS does not ensure that case files significant to the lease-signing process, and which contain information that can be used in the event of future disputes, are adequately maintained and administered.

The audit makes 11 recommendations to DHS, including that it should: ensure that employees are thoroughly familiar with and adhere to all DHS policies and procedures in the course of processing WADV cases; establish and enforce procedures that hold landlords and brokers who participate in side deals accountable; re-examine its current apartment clearance procedures; and set more stringent thresholds and guidelines with regard to building violations to ensure that apartments in buildings with numerous hazardous violations are not allowed to participate in the program.

The results of the audit have been discussed with DHS officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at [audit@Comptroller.nyc.gov](mailto:audit@Comptroller.nyc.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Liu".

John C. Liu

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

**Audit Report on the Monitoring of the  
Work Advantage Program by the  
Department of Homeless Services**

**MG10-060A**

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**AUDIT REPORT IN BRIEF**

The Department of Homeless Services (DHS) is responsible for providing emergency shelter and social services to homeless families and individuals in New York City. The services are designed to help homeless families and individuals gain self-sufficiency and move from temporary to permanent housing. In April 2007, the City instituted the Advantage New York Program (Advantage NY) consisting of three distinct subsidized housing programs: Work Advantage, Children Advantage, and Fixed Income Advantage. Each program has different eligibility criteria. The Work Advantage Program (WADV) is the largest of the three programs in terms of client participation. According to data obtained from DHS officials, a total of 8,187 WADV housing leases were signed from April 2007 to October 31, 2009.

The goal of the WADV program is to enable clients to become self-sufficient while they work and live in the community. The WADV program offers homeless families and individuals (clients) living in temporary shelters a one-year rental subsidy, with the possibility of renewal for a second year. The objective of this audit was to determine whether DHS ensured that the WADV program is carried out in accordance with its guidelines.

**Audit Findings and Conclusions**

DHS has not instituted sufficient controls to ensure that the WADV program is carried out in full accordance with its guidelines. In part, this is the result of its failure to update and distribute guidelines to DHS staff on a timely basis, which has led to inconsistencies in how they carry out procedures. During our interviews with DHS staff, we found instances of confusion about policy changes resulting in their disseminating incorrect information to clients. We also found confusion about the procedures for conducting clearance checks and inspections, which may result in the leasing of apartments in buildings with hazardous violations.

In addition, DHS has failed to implement sufficient controls to deal with a prevalent issue that is often brought to the attention of DHS staff, namely, side deals—tenants paying additional rent payments outside their lease agreements. Although DHS officials cite a number of controls

with regard to side deals that they believe to be working, they do not monitor those controls. In addition, DHS has failed to establish policy and procedures such as keeping track of landlords with known violations and ensuring that DHS inspections are properly monitored so that clients are placed in buildings with safe and adequate housing. The lack of some of these procedures, or the ineffectiveness of those currently in place, may place clients at risk of dealing with unscrupulous landlords or poor housing conditions.

Furthermore, DHS does not ensure that case files significant to the lease-signing process, which contain information that can be used in the event of future disputes, are adequately maintained and administered.

### **Audit Recommendations**

To address these issues, we make 11 recommendations, including that DHS should:

- Ensure that employees are thoroughly familiar with and adhere to all DHS policies and procedures in the course of processing WADV cases.
- Establish and enforce procedures that hold landlords and brokers who participate in side deals accountable and refrain from working with those individuals in the future.
- Review its procedures for educating clients during their stay in the shelters and for disseminating accurate information at the lease signing so that clients are better informed of their rights.
- Re-examine its current clearance procedures and set stringent thresholds and guidelines with regard to building violations to ensure that apartments in buildings with numerous hazardous violations are not registered.
- Emphasize to case workers the importance of obtaining all the required documentation and signatures required in the lease-signing process.

## INTRODUCTION

### Background

DHS was established in 1993 and became an independent Mayoral agency in 1999. Since its inception, DHS has been responsible for providing emergency shelter and social services to homeless families and individuals in New York City. The services are designed to help homeless families and individuals gain self-sufficiency and move from temporary to permanent housing.

In April 2007, the City instituted Advantage NY consisting of three distinct subsidized housing programs: Work Advantage, Children Advantage, and Fixed Income Advantage. Each program has different eligibility criteria. The WADV is the largest of the three programs in terms of client participation. According to data obtained from DHS officials, a total of 8,187 WADV housing leases were signed from April 2007 to October 31, 2009. This program is funded by a combination of federal, state, and city monies. The approximate breakdown is 50 percent federal funds, 25 percent state, and 25 percent city. The Human Resources Administration funds the City's portion of the program and transfers the funds to DHS. As of July 31, 2009, a total of \$107,338,862 had been spent on the WADV program; \$96,692,440 for original lease obligations<sup>1</sup> from April 2007 through July 31, 2009, and \$10,646,422 for lease renewals.

The goal of the WADV program is to enable clients to become self sufficient while they work and live in the community. The WADV program offers homeless families and individuals (clients) living in temporary shelters a one-year rental subsidy, with the possibility of renewal for a second year. The subsidy (in the form of a voucher) is determined based on the family composition and is intended to cover the full amount of the monthly rent, less a required \$50 monthly rental contribution, which the client must pay directly to the landlord. DHS pays the remainder of the monthly rent to the landlord of the leased unit. To be eligible for the WADV program, clients must: 1) have a Public Assistance case that is active and in good standing (i.e. no sanctions); 2) have been in a homeless shelter for a minimum of 90 days—families of six or more are exempt from this requirement; and 3) work at least 20 hours weekly with income below 150 percent of the Federal Poverty Guidelines for the family size.<sup>2</sup> While participating in WADV, clients are encouraged to save an amount each month equal to 10 to 20 percent of their rent.

Clients are notified of their eligibility to participate in the WADV program through an automatically generated program eligibility letter.<sup>3</sup> The letter specifies the program for which the client is eligible, the effective date, and the amount of the monthly rental subsidy. Once the clients receive this notification, they can select an apartment from a list of available units that have been registered by the process described below, or they can find an apartment on their own as long as the landlord successfully registers the apartment.

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<sup>1</sup> This sum does not include security deposits, broker fees, or the first three months of rent as those are paid directly by the Human Resources Administration (HRA).

<sup>2</sup> The poverty guidelines are a federal poverty measure issued each year by the U.S. Department of Health and Human Services.

<sup>3</sup> If a potentially eligible client does not receive the automatically generated letter, DHS's Transitional Family Services and Client Management Field Team (CMFT) units are responsible for assisting the client in verifying eligibility. In addition, the CMFT unit is responsible for obtaining a manually generated letter.

To participate in the WADV program, landlords must go through a registration process consisting of clearance checks performed by DHS's Clearance Unit and an inspection of the unit to be leased, performed by DHS's Inspection Unit. As part of the clearance process, DHS reviews the Department of Housing Preservation and Development (HPD) database for open lead paint violations, comprehensive litigation, and vacate orders. DHS also checks with the Department of Buildings (DOB) for vacate orders and applicable illegal conversion violations and verifies legal ownership with the Department of Finance (DOF).

Once an apartment passes the clearance checks, the process continues with an inspection performed by the DHS Inspections Unit. DHS inspectors follow the *Guidelines for Housing Quality Standard of the U.S. Department of Housing and Urban Development* (HUD) to determine whether the unit meets the standards for the program, such as having no lead or peeling paint and the presence of window guards, working refrigerator, stove, etc. If an apartment fails the inspection, the landlord is given details of the needed repairs and is advised to schedule another inspection once the problems have been corrected. The registration process ends at the Linking Unit, where staff are required to verify that an inspection has been completed within the last 30 days and confirm the legal ownership of the unit as well as the client's eligibility to participate in the program.

A landlord who has completed the registration process, including clearance and inspection of the unit, continues to the lease-signing stage. The Lease Signing Unit is responsible for preparing and processing all the documentation required for the case files and for facilitating the actual signing of the leases, which takes place at one of two DHS sites. To track clients and landlords through the leasing process, DHS staff enter information into two of their databases, Re-housing Computer Application (RCA) and the Linking computer application. The lease signings are generally attended by DHS case workers, shelter housing specialists, the clients, landlords, and brokers who facilitated in finding the apartments.

By the seventh month of participation in the WADV program, clients are mailed a renewal package. Once a client returns the required application, staff from the Prevention unit determine if the client is eligible for a second year of rental subsidy. The eligibility criteria for the renewal include: 1) demonstrated employment; 2) continued financial need (household income should be below 200 percent of the Federal Poverty Level for the family size); and 3) timely \$50 monthly rent payments to landlords.

Clients participating in the WADV program have access to aftercare services through HomeBase, which is DHS's community-based homelessness prevention program. There are 10 contracted programs that participate in the HomeBase aftercare services, which include help with finding jobs, household budgeting, and tenancy and legal services.

### **Objective**

The objective of this audit was to determine whether DHS ensured that the WADV program is carried out in accordance with its guidelines.

## **Scope and Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was April 2007 through October 31, 2009.

To accomplish our objective and to obtain an understanding of DHS controls over the monitoring of the WADV program, we conducted walkthroughs with first-line staff members, supervisors, directors, and assistant commissioners from the following DHS units: Office of Information Technology; Transitional Family Services; Case Management Field Team (CMFT); Office of the Agency Chief Contracting Officer (ACCO); Finance; Office of Re-housing (OOR); and Prevention.

To obtain an understanding of the WADV program process, we conducted various interviews of the staff performing the clearance checks and of the case workers and supervisors responsible for gathering, preparing, and verifying the required documentation for the lease signing. In addition, on three occasions we observed the lease signing process at the Bronx and Manhattan locations and interviewed 34 DHS clients.

To obtain an understanding of the guidelines governing the WADV program, we reviewed pertinent DHS policies and procedures, flowcharts of the process, correspondence with the State Office of Temporary and Disability Assistance regarding the policies established for the WADV program, the Mayor's Management Report, and relevant information obtained from the DHS Web site and other sources. The audit criteria included the following:

- Comptroller's Directive #1, "Principles of Internal Control,"
- "Advantage Program New York," specifically:
  - a) Customer Service Center procedures,
  - b) Intake and Clearance Unit procedures,
  - c) Inspections Unit procedures,
  - d) Linking Unit procedures, and
  - e) Lease Signing Unit procedures.

DHS provided us with an electronic file consisting of 8,187 WADV leases covering April 2007 to October 31, 2009. We randomly selected a sample of 50 WADV leases from the electronic file. We performed limited testing of the accuracy and reliability of information contained in the electronic file by comparing the information to the hard-copy files of the 50 leases. We determined whether essential information in the paper files, such as lease-signing dates, rent amounts, and client and landlord names, were accurately recorded in the electronic file. In addition, to obtain reasonable assurance on the completeness of the records in the



electronic file, we randomly selected 30 other hard-copy files of WADV leases signed during our scope period and determined whether they were included in the records of the electronic file.

In addition, we used the above sample of 50 WADV leases to determine whether the clients met the requirement of staying in a homeless shelter for a minimum of 90 days and to determine whether the case files contained the documents necessary for the signing of the lease (i.e., copy of lease and DHS lease rider, participant's and landlord's Statement of Understanding, copy of valid broker's license). We also ascertained whether these documents were appropriately signed as required.

We expanded our sample by randomly selecting an additional 50 WADV leases (for a total of 100 leases) to determine whether DHS performed the required clearance checks of open violations in order to register the apartments for the program. We obtained information from the HPD Web site to determine whether there were, as of the lease signing dates, open violations against the apartment unit in our sample or against its building. We also obtained information from the DOB Web site to determine whether there were violations for illegal conversions or other types of violations as of the date the leases were signed. Additionally, we requested DOB officials to use their database to identify any DOB violations that resulted in money owed to the City by the landlords of the 99 buildings in our sample<sup>4</sup> as of the date the WADV leases were signed.

We interviewed DHS's Director of Inspections to determine whether supervisory reviews of the inspectors were conducted on a regular basis. We also reviewed inspectors' route sheets to determine whether inspectors are rotated regularly among the five boroughs to discourage corruption. In addition, to familiarize ourselves with the inspection procedures, we accompanied three field inspectors during their inspections of apartments in the Bronx, Brooklyn, and Queens, observing a total of nine inspections.

To become familiar with the general responsibilities of the aftercare HomeBase providers, we visited 8 of the 10 programs corresponding to our sample of 100 leases. We interviewed directors, assistant directors, and aftercare coordinators to determine how clients are assisted and to understand the challenges of the WADV program and DHS requirements.

The results of the above procedures while not projected to the various populations from which the samples were drawn provided a reasonable basis for us to satisfy our audit objective.

### **Discussion of Audit Results**

The matters covered in this report were discussed with DHS officials during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials and discussed at an exit conference held on May 26, 2010. On June 07, 2010, we submitted a draft report to DHS officials with a request for comments. We received a written response from DHS officials on June 23, 2010.

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<sup>4</sup> The 100 apartments in our sample correspond to 99 buildings since two of these apartments are located in the same building.

In their response, DHS officials agreed to implement or to consider implementing six of the eleven recommendations in the report, did not address three recommendations, and disagreed with two. DHS's response also included objections to our findings. After carefully reviewing the arguments in the response, we found them to be without merit.

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

## FINDINGS AND RECOMMENDATIONS

DHS has not instituted sufficient controls to ensure that the WADV program is carried out in full accordance with its guidelines. In part, this is the result of its failure to update and distribute guidelines to DHS staff on a timely basis, which has led to inconsistencies in how they carry out procedures. During our interviews with DHS staff, we found instances of confusion about policy changes resulting in their disseminating incorrect information to clients. We also found confusion about the procedures for conducting clearance checks and inspections, which may result in the leasing of apartments in buildings with hazardous violations.

In addition, DHS has failed to implement sufficient controls to deal with a prevalent issue that is often brought to the attention of DHS staff, namely, side deals—tenants paying additional rent payments outside their lease agreements. Although DHS officials cite a number of controls with regard to side deals that they believe to be working, they do not monitor those controls. In addition, DHS has failed to establish policy and procedures such as keeping track of landlords with known violations and ensuring that DHS inspections are properly monitored so that clients are placed in buildings with safe and adequate housing. The lack of some of these procedures, or the ineffectiveness of those currently in place, may place clients at risk of dealing with unscrupulous landlords or poor housing conditions.

Furthermore, DHS does not ensure that case files significant to the lease-signing process, which contains information that can be used in the event of future disputes, are adequately maintained and administered.

The details of our findings are discussed in the following sections of this report.

### **Inadequate Distribution and Enforcement of Policies and Procedures**

DHS does not adequately distribute and enforce its policies and procedures. As a result, it cannot be certain that the WADV program is carried out in accordance with its guidelines. DHS has policies and procedures that have either not been updated and distributed to its employees or have not been enforced, thereby creating the risk that clients may not be placed in the most suitable or appropriate housing.

We requested DHS's policy and procedure manual for the WADV program on August 17, 2009, and made four additional requests before receiving a draft of the manual, *Advantage Program New York*, on September 25, 2009, and then the final version on September 30, 2009, nearly six weeks after the initial request. During the exit conference, DHS officials stated that the OOR, Finance, Prevention, and ACCO units did not have a "codified manual" at the start of our audit and that the CMFT unit and Customer Service Center were the only units that had a written procedural manual. DHS officials also cited a number of resources that they used in place of a manual, such as on the job training and materials provided during training. They also stated that supervisory staff are readily available to clarify any issues that may arise. Although these are all valuable in assisting staff, they should accompany, rather than be used in place of, a procedural manual. Having procedures assembled in a formal manual would better enable DHS employees to refer to them in case questions arise during the course of day-to-day operations.

On January 7, 2010, we interviewed 29 employees responsible for processing WADV cases and found that 24 (83%) of the 29 employees were either never given a policy and procedures manual or were unable to find their copy.<sup>5</sup> In addition, two of the five documents that were shown to us were not formal procedural manuals; instead, they were individual pieces of paper and notes provided during the training of employees. It is essential for all DHS employees not only to be thoroughly familiar with the policies and procedures, but also to have written copies of the most recent policies for regular guidance. However, there were instances in which DHS staff were not aware of policy changes and were therefore not carrying out current program procedures.

As of July 1, 2009, DHS made a change in policy by discontinuing one component of the WADV program, the Savings Match and Rental Rebate Program. Upon a client's graduation from WADV, this program matched a portion of the client's savings and reimbursed the \$50 monthly rent contribution. We were informed about this change to DHS policy on September 21, 2009; however, DHS did not update its Web site accordingly until January 13, 2010. During our March 31, 2010 lease-signing observation, we noted that the case workers were still informing clients that they were eligible for the program. On April 9, 2010, we advised DHS to let their case workers know about the change in policy. DHS officials responded that they would do so, but at lease-signings on April 19, 2010, we observed that case workers continued to describe the program as if it were still operational. We interviewed seven case workers and two supervisors regarding their knowledge of this program. Six of the seven case workers and the two supervisors told us that as far as they knew, DHS was still refunding and matching the \$50 monthly rent and a portion of the clients' savings. The one case worker who was aware of the change said that in March 2010, he learned about the termination of the program from a shelter's housing specialist, not from DHS.

Inspections and clearance checks are two other procedures that if carried out properly can ensure that clients are placed in buildings with safe housing conditions. However, the current process carried out by staff is contrary to DHS policies. According to DHS's manual, "Inspectors must take pictures of each room of the apartment, including any potential violations." However, on two days, when we accompanied three inspectors and observed a total of nine inspections, inspectors took pictures only of apartments that passed inspections, not of those that failed. During the exit conference, DHS officials stated that inspectors are not required to take pictures of apartments that failed inspection. They contend that "potential violations" refer only to those in apartments that passed inspection. However, this interpretation is not stated in DHS's manual. In addition, DHS officials were unable to clearly identify the violations that fall under the category of potential violations. (They stated that missing window guards would be one type of violation, but were unable to recall any other types that may fall under this category.) DHS's manual is also silent on this issue, leaving the interpretation of what constitutes a potential violation to each inspector.

The actual clearance process for DOB violations also does not conform to current policies. On two occasions we met with officials from the Clearance Unit and were told that one of the steps of the clearance process involves a check using DOB data whose purpose was to

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<sup>5</sup> Eighteen employees told us they were not given a manual and six employees were not able to find their copies.

detect any discrepancies in the number of units in a given building and to detect violations *coded* by DOB as an illegal conversion. However, toward the end of the audit, we were informed that DHS only reviews *all* open DOB violations that are less than a year old. The DHS manual does not identify either step but states that staff are required to check the DOB data in the event of discrepancies in the number of units. During the exit conference, DHS officials insisted that clearance staff looked at all violations, regardless of the time involved. However, our observation of the clearance process did not reveal any instances in which the clearance staff looked into DOB violations that were more than a year old. This inconsistency underlines the need for more clearly defined procedures in the DHS manual.

To avoid placing clients at risk, DHS needs to ensure that its policies are very clear and that procedures are updated regularly and distributed to all of its employees.

**DHS Response:** “DHS disagrees with the central premise . . . that because DHS lacked a ‘formal’ manual at the inception of the Advantage Program, Agency staff failed to adhere to certain policies and procedures and, as a result, created a risk that clients might not be placed in the most suitable or appropriate housing. The Audit Report fails to point to a single instance where an Advantage participant actually moved into an apartment with unsafe conditions because DHS had failed to comply with OOR procedures.

“Shortly after commencement of the audit, DHS provided the auditors with written procedures governing the role of each of the various units within each DHS division tasked with implementing various aspects of Work Advantage, including OOR’s procedures and other DHS division functions.”

**Auditor Comment:** Whether or not the audit identified an instance of a participant’s moving into an unsafe apartment as a result of DHS’s failure to comply with OOR procedures has no bearing on the risk that such an event could occur. In fact, that risk is further highlighted by the audit finding that in violation of OOR procedures, three buildings in our sample had vacate orders. (This finding is discussed beginning on page 15 of this report.) Moreover, we believe that DHS’s inadequate distribution of a written manual and reinforcement of its policy and procedures contributed to the communication of incorrect information to clients as well as to inconsistencies in the conduct of inspections and the clearance process. As noted below, DHS has agreed to implement our recommendation by expanding its OOR Manual.

### **Recommendations**

DHS should:

1. Update its policies and procedures and distribute them to all employees on a timely basis.
2. Ensure that employees are thoroughly familiar with and adhere to all DHS policies and procedures in the course of processing WADV cases.

***DHS Response to Recommendations 1 and 2:*** “We do recognize . . . that a formal operations manual is a useful tool to avoid staff confusion about DHS’ policies and procedures governing operation of the Agency’s rental assistance program. Therefore, going forward, we will expand the OOR Manual to include the procedures of the other DHS divisions and units that will implement the new Advantage Program.”

### **Insufficient Controls to Prevent Side Deals**

DHS has insufficient controls to deal with landlords and brokers who pressure their tenants to pay additional rent payments outside their lease agreements, otherwise known as side deals. Although DHS officials acknowledge that they are aware of this problem, they have taken few measures that result in consequences to those landlords engaging in side deals. Clients participating in the WADV program are required to contribute \$50 towards the agreed upon rent that is paid by DHS on their behalf. The established rent prices range from \$889 for a family of one to \$1,925 for a family of 11-12 individuals. The rent amount is stated in the lease agreement that is signed by both the landlord and the client. However, despite the fact that the amounts are stipulated and agreed to in writing, landlords continue charging clients extra amounts, sometimes as much as several hundred dollars a month.

HomeBase officials told us that they received a large volume of complaints from clients about side deals; however, they stressed that they are only able to record the details of the complaints if the clients are willing to formally open a case with them. According to HomeBase officials, most clients are hesitant to do so out of fear of retribution from the landlords. We found that 3 of 27 clients in our sample who opened a case with their HomeBase reported side deals. We also received additional information from HomeBase officials regarding side deals for three clients not in our random sample. The amount of extra money that these six clients had to pay ranged from \$130 to \$400 per month.

In a quarterly report to DHS, one HomeBase provider stated, “Many of the problems we are asked to investigate begin with an illegal side deal. With no real consequences for landlords and brokers these illegal deals will continue to be a problem. HomeBase is not empowered to hold either landlord or client accountable; all we can do is ask.” HomeBase providers consider side deals to be one of their greatest concerns, mainly because they lack any authority to deal with this problem effectively. The providers also stated that since the clients have been paying for these side deals from the beginning, they rarely can help them recoup the money. This problem is further compounded by the fact that clients are not aware of the aftercare services provided by the HomeBase programs. In fact, 24 (71%) of the 34 clients that we interviewed during lease signing stated that they were not aware of the existence of HomeBase programs, nor of the aftercare services available to them. HomeBase officials expressed a similar concern, stating that clients do not come to them at the start of the program for assistance, but rather after they get into a situation where it becomes too late for HomeBase to help them, such as with side deals.

Based on our interviews with clients during the lease observations, we found that most of them were aware of the occurrence of side deals, a number of them stated that they had been approached by landlords about them, and a few of them admitted to participating in side deals. It

should be noted that some of these interviews were conducted in the presence of their landlords and brokers and some of the clients appeared reluctant to discuss this topic in their presence. In one instance, the broker attempted to respond on behalf of the client. Accordingly, it is possible that more of the clients we interviewed were approached by landlords and participated in side deals. The clients who admitted to engaging in side deals agreed to pay from \$59 to \$280 per month extra, with one client having to pay a total of \$990 in advance of moving in.

The issue of side deals is so prevalent that the State of New York<sup>6</sup> addressed it early in the program. In fact, one of the state's requirements prior to approving this program in April 2007 was that DHS adopt and submit to the state procedures outlining the steps to prevent landlords from entering into side deals with clients. DHS identified the following steps it takes to address side deals:

- Participants are informed to not engage in side deals at the shelters and at lease signings.
- Landlords are informed that side deals are strictly prohibited.
- The following documents, signed by both the client and landlord at the lease signing, expressly forbid the use of side deals: the Lease Rider, the Landlord Statement of Understanding, and the Participant Statement of Understanding.

DHS officials also stated that the agency contracts legal aid services for families who have entered into side deals, especially those facing eviction, and obtains the assistance of housing court judges in recognizing the WADV lease only and to nullify any subsequent leases for side deals. (Although requested, DHS did not provide us the specific cases for which it provided legal assistance, citing confidentiality issues.) Finally, DHS referred to its aftercare services hotline as recourse for clients to use and added that if clients called 311 for assistance, they would be routed to DHS for help.

Notwithstanding the above, however, we found little evidence of their effectiveness in helping to prevent the use of side deals. According to a number of clients interviewed, in fact, the homeless shelters are actually encouraging the clients to accept apartments with side deals. Although we do not question the fact that shelters are required by law to assist clients in finding suitable housing, there is a potential conflict of interest in requiring shelters to inform clients not to engage in side deals. Shelters have a vested financial interest in getting clients to leave as quickly as possible, since they lose money if a client continues to remain in the shelter after a certain period. During our interviews at lease signing, clients stated that it is common knowledge that the easiest way out of the shelter system is by participating in this practice. As a result, according to the clients that we interviewed, the same shelter staff that are educating clients about the perils of side deals are also tacitly encouraging clients to engage in the deals. The clients we interviewed stated that they in turn feel a great amount of pressure to take any apartment, regardless of the side deal, just so they can get out of the shelters. HomeBase officials that we interviewed also expressed these sentiments to us.

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<sup>6</sup> WADV is partially funded by the State through the Office of Temporary and Disability Assistance.

One client interviewed stated that although she received a voucher for \$1,316 in rent, the shelter housing specialist took her to see an apartment for which the landlord was charging \$1,600. Another client, who was told by the shelter not to pay more than two months' rent in advance, was not even aware that the \$200 above the stipulated rent was considered a side deal. Based on interviews, it appears that clients are being encouraged by shelter staff to take side deals because apartments cannot be found for voucher amounts.

In addition, our observations of the lease signings revealed that clients were not in fact educated about side deals during the signing of the leases. In fact, only two of the seven case workers that we observed facilitating the lease signings made any reference whatsoever regarding side deals. The references made were general; one case worker said, "Your voucher is for [a dollar amount] so you don't have to pay any extra," and the other case worker would say, "If the landlord asks you for more money, tell him to call DHS." When we asked the case workers about side deals, they replied that if they suspected that this was occurring, they made it clear that side deals were prohibited. However, the case workers agreed that they have no authority to stop the side deals from occurring, especially since the parties involved are aware that there are no consequences to their actions. Moreover, the case workers told us that they do not inform DHS officials of any side deals that come to their attention because they are not required to do so. When we discussed this with DHS officials, they said that although they are aware of side deals, they have no mechanism to keep track of landlords and brokers involved in this practice.

However, simply urging clients not to enter into side deals at the lease signing comes too late since some clients participating in side deals will most likely have already paid a certain amount in advance to secure the apartment. As one case worker told us, there is no "teeth" in admonitions at that late stage. The case worker referred to a case in which a broker charged the client \$1,300 for his services. Nothing could be done to help the client at lease signing because at that point the money had already been given to the broker. While it may be true that landlords are informed that this practice is prohibited, as long as DHS continues to do business with landlords known to engage in side deals, it is sending the landlords mixed messages.

Although the lease states that not adhering to the terms is a violation, the mechanisms listed by DHS to prevent side deals are rendered useless if DHS is not willing to enforce the stipulations cited in the lease. The act of stating that noncompliance with the lease is a violation is insufficient if action is not taken to prevent side deals. It is interesting to note that one mechanism *not* employed by DHS is the tracking of landlords who have a consistent pattern of engaging in side deals. Despite the fact that side deals are a contract violation, we found no evidence that DHS imposes consequences on landlords who violate the terms of the lease.

The shortage of effective measures to end side deals results in the undermining of one of the goals of the WADV program, which is to help clients prepare for a successful transition to fiscal responsibility, specifically encouraging clients to save a portion of earnings. The annual income that WADV clients earn at the beginning of the program is *below* 150 percent of the poverty level, and in order for the clients to remain eligible for the WADV program, they cannot earn more than 200 percent of poverty level. It is not reasonable to expect this group of people to pay the extra funds each month in addition to saving a portion of their earnings. In the absence



of more proactive measures taken by DHS against landlords and brokers who pressure clients into paying extra money, the overall goal of the program, which is the transition of the family to housing and financial stability, is hindered.

**DHS Response:** “The Draft Report states that the ‘mechanisms listed by DHS to prevent side deals are rendered useless if DHS is not willing to enforce the stipulations cited in the lease.’ This is simply not true. The Agency has ensured that the language of the lease and related documents provide the proper legal foundation for challenging side deals in court. In fact, with legal assistance provided by DHS’ anti-eviction legal services providers, tenants have successfully defended against nonpayment or eviction proceedings *based on* (emphasis in the original) the prohibition against side deals in the lease and related documents.”

**Auditor Comment:** Although requested, DHS did not provide us with evidence of the actions it has taken or the names of the persons it has assisted in challenging side deals. As a result, we are unable to verify DHS’s statements regarding its enforcement of the prohibition of side deals.

**DHS Response:** “The Draft Report states that ‘according to a number of clients interviewed, in fact, homeless shelters are encouraging the clients to accept apartments with side deals.’ The Report makes this assertion without having interviewed *any* (emphasis in the original) staff at the shelters where these clients stayed. DHS takes strong exception to this unsubstantiated statement given that the auditors failed to elicit shelter staff’s response to this allegation or interview staff of *any* (emphasis in the original) shelters.”

**Auditor Comment:** It is hard to fathom how DHS could expect that such interviews of staff would have led to an admission of their own wrong-doing. By contrast, the clients we interviewed had no vested interest in fabricating events since they were already in the process of signing leases.

**DHS Response:** “The Draft Report states that at 5 of the 7 lease signings observed by the auditors, the client’s case workers did not make a reference to side deals. The auditors therefore conclude that ‘[their] observations of the lease signings revealed that clients were not in fact educated about side deals during the signing of leases.’ Yet, the Report makes no mention of the lease and related documents that clients sign which contain specific prohibitions against side deals.”

**Auditor Comment:** As stated in the report, only two of the seven case workers whom we observed during the lease signings referred to side deals, and even those references were general at best. Moreover, the case workers specifically told us that they discuss the matter of side deals with clients only when they suspect that it is already occurring. In addition, DHS’s claim that the report does not mention the documents that contain prohibitions against side deals is incorrect. These documents are clearly identified on page 12 of this report.

## **Recommendations**

DHS should:

3. Coordinate its efforts with the HomeBase officials and keep track of all landlords and brokers that have engaged in the practice of side deals.
4. Establish and enforce procedures that hold landlords and brokers who participate in side deals accountable and refrain from working with those individuals in the future.
5. Review its procedures for educating clients during their stay in the shelters and for disseminating accurate information at the lease signing so that clients are better informed of their rights.

***DHS Response to Recommendations 3, 4, and 5:*** “DHS has a strong system of internal controls with respect to the prevention of side deals. Nevertheless, to ensure that all parties are aware of the prohibition on side deals and the control measures to combat them, DHS will reinforce this prohibition prior to lease signing by including it with the certification letter that shelter clients will receive notifying them of their eligibility under the new program. DHS also will consider ways to increase clients’ awareness of Homebase services prior to and at lease signing.”

***Auditor Comment:*** DHS does not respond to recommendations 3 and 4, which refer to keeping track of the landlords and enforcing procedures to hold the landlords accountable. Nevertheless, we are pleased that DHS will reinforce its prohibition of side deals prior to lease signing and that it will consider ways of increasing clients’ awareness of Homebase services.

## **DHS Engages in Leases with Landlords with Records of Abuse**

DHS has no formal procedures with which to track landlords who have records of outstanding violations and owe money to the City. In the registration process, DHS is failing to use information and resources available to it to ensure that the department is not dealing with these landlords and creating the risk that clients will be placed in undesirable and possibly unsafe buildings. In continuing to do business with those landlords, DHS is essentially rewarding them for noncompliance with standards.

The clearance checks of the apartments are critical aspects of the registration process that all landlords must undergo prior to being allowed to participate in the WADV program. The information about the landlord and the apartment to be registered is automatically linked and matched in DHS’s computer application and the HPD mainframe.<sup>7</sup> DHS staff also perform a manual clearance process for DOB violations for illegal conversions by accessing the DOB’s

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<sup>7</sup> The information is also automatically linked and matched in DHS’s computer application and the mainframes of DOHMH and DOF. However, we were unable to obtain information from the DOHMH Web site on our own. In addition, we did not review DOF information since it pertained to legal ownership and we were testing for violations.

Web site. In order for an apartment to be registered and entered in the program, it must meet the following conditions. It must:

- Have no open violations for lead-based paint hazards.
- Be in a building that is not in comprehensive litigation.
- Have no open vacate orders.
- Have no open violations for illegal conversion of the unit.
- Belong to a landlord who is registered with DOF as the legal owner.
- Meet federal HUD standards (e.g., have a working refrigerator and stove, window guards, no open holes in wall, or loose wires).

Our review of the case files found that DHS generally ensured that most of these standards were met before registering units and entering into leases with landlords. However, we found other types of significant violations that DHS does not consider in determining whether an apartment should be allowed to enter the program. We believe that DHS's exclusion of these violation types increases the risk that clients may be placed in buildings with unsafe or hazardous conditions.

### **Open HPD Violations**

DHS's current clearance process of apartments to be leased for the WADV program focuses on the suitability of the apartment where the client will reside and does not look into the violations that affect the building as a whole, with the exception of buildings with open vacate orders or comprehensive litigation. Our review found that 61 (64%) of 95 buildings<sup>8</sup> in our sample had a total of 2,878 open HPD violations, indicating that landlords are allowed to participate in the program despite not having cleared up violations against their buildings and possibly exposing the clients living in these buildings to various types of hazardous conditions. Of these 2,878 open violations, 1,841 (64%) were categorized by HPD as Hazardous Violations, and 461(16%) were categorized as Immediately Hazardous.

In an effort to run clearance checks for HPD open violations similar to the ones performed by DHS, we reviewed the violations listed on the HPD Web site for the apartments and buildings within our sample. Our review disclosed that, as of the lease date, 61 (64%) of 95 buildings in our sample had a total of 2,878 HPD violations, ranging from 1 to 427 violations per building. We also found that one of the 95 buildings was involved in comprehensive litigation at the time of the lease signing and three buildings had vacate orders; based on these issues, DHS should not have cleared the apartments within those buildings. In addition, 15 (16%) of the 96 apartments had a total of 125 open violations as of the dates the apartments were leased. Of these 125 open violations, 91 were categorized by HPD as Hazardous Violations, and 16 were categorized as Immediately Hazardous. HPD defines Hazardous Violations as noncompliance with regulations requiring public doors to be self-closing, adequate lighting in public areas, the

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<sup>8</sup> Out of the total of 99 buildings corresponding to 100 apartments in our sample, the HPD Web site did not show any information for four buildings; therefore, our total HPD review was based on 95 buildings and 96 apartments.

absence of vermin, etc. HPD defines Immediately Hazardous Violations as conditions such as inadequate fire exits, rodents, lead-based paint, or lack of heat, hot water, electricity, or gas, etc.

DHS's current HPD clearance process focuses only on the following HPD violations: certain levels of lead-based paint within the particular apartment being registered or in the surrounding corridor, failure to vacate, and comprehensive litigation against the building. Although we did not determine the specifics for all of the 125 violations, we were able to determine that the 16 immediately hazardous violations within our sample were for landlords not providing hot water at hot water fixtures and for broken windows, among other issues. Moreover, within our sample we noted that 2 of the 95 buildings had a total of 826 open HPD violations, and both of these buildings were owned by the same landlord. In addition, in reviewing our total population, we found that DHS paid for 80 units in the building complex owned by the same landlord. While DHS's clearance process may have provided information about the particular units leased within these two buildings, DHS did not research whether the landlords of these units neglected to clear violations pertaining to the buildings containing the units that may possibly threaten the safety of DHS clients.

Safety and health concerns, such as faulty wiring, leaks, and rodents throughout the building, should not be taken lightly. However, based on DHS's current clearance process, these issues would not be detected. According to DHS officials, their only concern during the clearance process is the apartment where the client will reside, and they rely on inspectors to notice any violations that pertain to the building as a whole. We were told by DHS officials that the main responsibility of the inspectors is the apartment unit itself, as evident in the details of the checklist that they are required to fill out. The narrow focus of the inspection was also confirmed when we accompanied three inspectors and observed the process. Unless a problem is glaringly obvious on the outside or front entrance of the building, it would not be detected during the inspection, making it highly probable that a building with a number of violations will be cleared for registration. Moreover, DHS has failed to implement procedures that would require its staff to use other information and resources available to them to ensure that DHS does not deal with landlords with long records of outstanding violations, many of which stem from chronic maintenance problems. One example of a resource that DHS can use is the listing of the City's 200 most distressed residential buildings that is compiled through HPD's Alternative Enforcement Program. DHS needs to ensure that landlords understand that they first have to resolve their housing code violations before the City is willing to do business with them. Doing anything else is placing families in potentially dangerous situations.

At the exit conference, DHS officials stressed that its clearance and inspection processes are targeted for the particular units under consideration. They stated that these processes are not designed to detect all violations throughout a building. Nevertheless, the clearance and inspection processes can be useful tools in helping to minimize the risk that clients may be placed in buildings with unsafe or hazardous conditions.

## **Open DOB Violations**

Our review also found that 27 (28%) of 96 buildings<sup>9</sup> in our sample had a total of 107 open DOB violations, ranging from 1 to 28 violations per building. In addition, our review disclosed that 15 of these DOB violations, involving nine leases, were for open illegal conversions as of the date the leases were signed.

During the course of the audit, clearance staff stated that the primary concern during the DOB clearance process is to determine whether there are violations outstanding for one year or less for illegal conversions. Hence, all other types of violations, including those for illegal conversions that are open for more than a year, would be overlooked. (At the exit conference, DHS officials asserted that clearance staff looked at all violations, including those that were more than a year old. However, their assertion was contradicted by interviews with the clearance staff and with what we saw during our observation of the clearance process.)

DHS officials told us that it was a judgment call on their part to restrict the review of violations to only a year, based on the assumption that most violations would be resolved within that period. However, DHS takes no steps to ascertain whether the deficiencies related to open violations more than a year old had in fact been corrected. In our review, we found that 95 of the 107 open violations corresponding to 26 buildings in our sample were more than a year old as of the date the leases were signed, including 14 of the 15 violations for the illegal conversions. DOB classified 30 (32%) of these 95 violations as hazardous violations. Neither we nor DHS have any assurance that these violations have been resolved, yet DHS does not consider the status of violations that are more than a year-old in its decisions to register the apartments.

DHS officials also told us that if, during the clearance process, staff notice violations other than for illegal conversions, they can still pass the apartment for clearance; however, they are required to notify the inspectors. This is usually conducted face-to-face or through e-mails. Moreover, the DHS manual does not identify the parameters that require the clearance unit to notify inspectors of violations (other than those involving illegal conversions). Such notification is left to the discretion of the individual performing the clearance process.

During our review of DOB's Web site, we noted that the information provided did not specify unit or apartment numbers; therefore, we were unable to determine whether the violations we found were specifically for the units being registered. We were able to determine only that there was a violation for an illegal conversion in that building. When we asked DHS employees how they dealt with that situation, they replied that they manually research the violations to see if they can find other data that would help them decide whether the apartment should be cleared for registration (e.g., whether the illegal conversion in question pertained to a basement or attic, not an apartment). If they still have doubts, DHS staff "use judgment and try to pinpoint the unit." If they are not comfortable in making a judgment call, they either turn to their superiors for a decision on whether to approve the apartment for clearance, or else they

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<sup>9</sup> Out of the total of 99 buildings corresponding to 100 apartments in our sample, DOB Web site did not show any information for three buildings; therefore, our total DOB review was based on 96 buildings and 97 apartments.

themselves decide and advise the inspectors of a possible illegal conversion involving the apartment.

### **Financial Implications**

DHS's failure to keep track of abusive landlords who owe money to the City for noncompliance with building standards has led the department to reward them with its business. Currently, outstanding fees for the HPD and DOB violations against the buildings in our sample amount to \$255,469.

HPD officials informed us that landlords must pay a fee of \$300 per building to remove the violations from the HPD records, but there could be other fees owed to the City such as emergency repair charges. While we were unable to obtain an official estimate of the amount of fees owed, based on our calculations, it is reasonable to believe that the 61 building owners with open HPD violations owed the City at least a total of \$18,300 (61 x \$300). There may be additional amounts owed for the cost of hazardous violations that were cleaned up by HPD. In addition, according to information obtained from DOB, 27 (27%) of the 99 buildings in our sample owed a total of \$237,169 for outstanding fees or fines related to violations issued by DOB.

Currently, DHS has no procedures in place to ensure that fees associated with violations are reviewed during its clearance process. In fact, the fees owed to the City by these landlords are never considered before registering an apartment and allowing the landlord to earn a profit from the City. DHS has at its disposal the resources necessary to prevent those landlords with long records of abuse, neglect, and in financial arrears to the City from profiting from this program. However, DHS is not using all of its resources and as a result, the department is financially benefiting those individuals who owe money to the City. By allowing clients to move into buildings not only with documented histories of violations but also with uncollected fees associated with those violations sends the message that the City is willing to put its homeless population in buildings with numerous hazardous violations, that it tolerates hazardous violations, and that it is even willing to allow violating landlords to reap the benefits of its subsidy programs.

### **Recommendations**

DHS should:

6. Re-examine its current clearance procedures and set stringent thresholds and guidelines with regard to building violations to ensure that apartments in buildings with numerous hazardous violations are not registered.

***DHS Response:*** "As explained during the Exit Conference, 'registration' of an apartment simply involves a landlord or broker calling the CSC Unit to sign up for participation in the Program. . . . Thus, it is inaccurate for the Draft Report to recommend that DHS prevent the 'registration' of apartments with open violations . . . as 'registration' is merely the first step in the process. It is the subsequent checks by the Clearance and Inspection Units that weed out apartments with violations."

**Auditor Comment:** As stated in the report and told to us by OOR officials during numerous meetings, the registration process is merely *initiated* when a landlord or broker signs up a unit for participation in the program; the process is not complete until the unit has passed inspection.

7. Explore the feasibility of coordinating efforts with DOB and HPD to ensure that it does not register apartments in buildings owned by landlords who do not take appropriate action to resolve violations in those buildings and pay the associated fines.

**DHS Response:** “DHS disagrees with this recommendation for the following reasons.

“First, the Draft Report does not cite a single instance of an apartment that passed Clearance and subsequently became subject to an HPD or DOB vacate order after the Advantage participant had moved into the apartment. Moreover . . . Clearance staff checks for HPD and DOB vacate orders with respect to individual apartments *and* the building in which the apartment is located. Clearance further checks whether . . . HPD has pending litigation.”

**Auditor Comment:** As clearly stated in the report (beginning on page 16), three buildings in our sample of buildings that passed clearance had vacate orders, and another building that passed clearance was involved in comprehensive litigation.

**DHS Response:** “Second . . . each apartment . . . undergoes a thorough inspection by HUD-trained and certified inspectors, which ensures that apartments do not pass through to Linking unless they meet HUD Standards. . .

**Auditor Comment:** DHS completely ignores our point that its current HPD clearance process leaves clients vulnerable to being placed in buildings with unsafe or hazardous conditions. As we state in this report, 64 percent of the buildings in our sample had a total of 2,878 open HPD violations, and 28 percent of the buildings had a total of 107 open DOB violations.

**DHS Response:** “Third, failure to pay fines . . . does not necessarily mean that the apartment is unsafe for occupancy. . . . it is possible that a landlord could make all repairs necessary to cure a violation, but without the payment of outstanding fines, HPD’s or DOB’s database would not reflect that remediation. . . .”

**Auditor Comment:** DHS argues that the existence of outstanding fines does not necessarily indicate that the violations have not been cured; however, DHS currently has no mechanism in place to determine whether or not this is the case. As stated in the report, DHS should not financially benefit those individuals who have unresolved violations or owe money to the City.

**DHS Response:** “Fourth, HPD, DOB, and other city agencies . . . are authorized to issue violations and summonses to building owners who have failed to meet their

responsibilities. . . . the City provides effective mechanisms of review and enforcement to ensure the safety of the City’s housing stock. Tenants can trigger these processes by calling 311 to file a complaint if they believe conditions in their apartment or building violate applicable laws or regulations or pose a threat to their health or safety. As noted above, DHS implemented a dedicated helpline of its own for Advantage participants or call 311.”

**Auditor Comment:** DHS stresses the mechanisms that are available to clients should they be placed in apartments or buildings with unsafe or hazardous conditions. However, we continue to maintain that DHS should make a stronger effort to ensure that clients are not placed in such conditions in the first place. Accordingly, we reaffirm our recommendation.

### **Lack of Procedures for the Monitoring of Inspectors**

DHS lacks policies and procedures to ensure that its inspectors are monitored or reviewed periodically by the Director of its Inspections Unit. In fact, DHS has no records to indicate the number of supervisory reviews that were performed of its inspection unit. Although our review of the DHS route sheets found that inspectors are rotated regularly among the five boroughs to discourage corruption, without adequate supervision and oversight, there is a very real risk that inspectors may not be performing their responsibilities adequately.

All apartments must be inspected by one of the nine DHS inspectors before they can be registered to be part of the program. These inspections consist of 13 to 14 daily inspections per inspector, with a goal of 120 inspections per day. In addition, we were told by the Director of Inspections that twice a month, he performs random and unannounced Quality Assurance Checks (supervisory reviews) of inspectors, with three supervisory reviews conducted a day for a total of six per month. However, when we requested supporting documentation of the supervisory reviews, he acknowledged that there are no standard records kept. As a result of the lack of documents, we were not able to determine the number of supervisory reviews conducted nor the results of these reviews. Without some form of supporting documentation of the supervisory reviews performed, there is no way to verify that the reviews actually took place and that the inspectors are performing inspections adequately and consistently.

Comptroller’s Directive #1 states that a sound internal control system must be supported by monitoring ongoing activities at various organizational levels and doing so during the course of normal operations. The Directive stresses that agency management must perform continuous monitoring of activities and programs. Failing to keep track of audits increases the risk of fraud by not ensuring that inspectors are complying with their assigned inspections. In addition, it also increases safety concerns since there is no assurance that inspectors are performing adequate or thorough inspections.

**DHS Response:** “Contrary to this finding, the Director of Inspections must approve every inspection report before an apartment can be passed through to Linking, and the Director of Inspections makes unannounced quality assurance checks on inspectors during their inspection of registered apartments. . . . Upon explaining this to the auditors



at the Exit Conference, they expressed their opinion that the Director of Inspection should document in writing the results of his quality assurance checks.”

**Auditor Comment:** We do not question that the Director of Inspections must approve every inspection report. We are also aware that the unannounced quality assurance checks are an integral part of the Director’s ability to approve the inspection reports. In the absence of supporting evidence, however, DHS is unable to demonstrate that the unannounced quality assurance checks actually took place.

### **Recommendation**

8. DHS should ensure that periodic and random reviews are conducted of all its inspectors and that these reviews are documented and discussed with inspectors on a regular basis.

**DHS Response:** “We will consider whether to adopt this recommendation upon implementation of the new Advantage program.”

### **Inadequate Management Controls over Case Files**

DHS lacks adequate controls for the maintenance of its case files. Our review of the initial randomly selected 50 cases revealed issues with DHS policies and procedures regarding the creation and maintenance of information used during lease-signing, as well as the processing of cases. As a result of inadequate management controls, DHS officials were not able to find three (6%) of the 50 case files. In addition, for 15 (32%) of the remaining 47 case files, DHS either lacked policies or did not ensure that the case files were processed in accordance with its lease signing policies.

#### **DHS Does Not Keep Track of Its Case Files**

During Fiscal Year 2009, DHS did not have a mechanism in place to keep track of case files to minimize the risks of misuse or unauthorized alteration. As a result, DHS was not able to find three (6%) of the 50 case files that we requested.

DHS officials are responsible for ensuring that all legal and supporting documentation for the signing of the lease is prepared and maintained in the case files. These files contain crucial information, such as the landlord’s rightful ownership of the apartment to be rented and the client’s family composition at the time of lease signing. Moreover, the documentation kept in the files is used to bind the landlord and the client to the contract they enter into at lease signing. Should a problem arise in the execution of the lease, the evidence in the case files will be used to resolve the issues. It is therefore essential for DHS to ensure that the case files are preserved.

DHS officials admitted that they had no record of case files to indicate the ones that should have been available and no record of those that had been removed. Keeping track of the status of each case through a centralized record-keeping system that indicates when DHS receives a case, when follow-up action is required, and when case files are removed from the office, is sound business practice. To ensure that all of its case files are accounted for and to

minimize the risks of misuse or unauthorized alteration, DHS should establish a logging system for accessing and retrieving case files.

During the exit conference, DHS officials informed us that they located one of the three missing case files (more than three months after our initial request). The remaining two case files are still missing.

### **Insufficient or Noncompliant Lease-Signing Policies**

DHS did not ensure that all of its case files were handled in accordance with its policies. As required by DHS policies and procedures as well as by the requirements outlined on the DHS Web site, various documents must be presented and signed during the actual lease signing. As mentioned previously, these documents are essential since they are legal evidence of the contract entered into by the landlord and the client at lease signing. However, we found that in 15 (32%) of the 47 case files that we were able to review—in which DHS failed to implement guidelines or to ensure that its guidelines for the maintenance or processing of its records. The issues in question for 10 of the 15 case files regard information that is required during the signing of the lease; for two case files, incorrect payments made; and for another three cases, the subsidy amount corresponding to the family composition was not entered accurately into DHS's database.

For 10 case files, the following documents were either missing or not signed: deed, notarized letter from parties listed on deed authorizing rental payment, notarized letter from landlord authorizing another party to sign leasing documents and pick up checks, landlord's statement of understanding, landlord's acknowledgment of assignment of security deposit. Failure to ensure that accurate and required information is maintained in the files may result in problems that the client and landlord will have to resolve after lease signing, thereby affecting the stability of the client's residence in the apartment. DHS staff should give specific attention to the supporting records in the case files so as to avoid any problems in the execution of the lease.

DHS legal counsel argued that the missing documents cited for 5 of the 10 cases were not required. However, this differs from what we were told by case workers and the OOR Director during the course of the audit, who all stated that the above listed documents were required for the lease signing process. We must note that the DHS policy and procedures are also in conflict with the information provided by the DHS legal counsel. This matter further emphasizes the need for DHS to develop defined policies and procedures so that DHS staff involved in the process are fully informed of the various requirements.

Lack of attention to detail may also result in financial repercussions, as was the case for 2 case files. In one of the cases, DHS paid \$1,316 to the landlord as a security deposit. However, since the client was transferring to WADV from a previous subsidy program, no security deposit was required. In addition, the subsidy amount paid in three cases did not correspond to the client's family composition as shown in the data of the computer application. DHS officials stated that in preparing the documentation for the lease signing, the initial subsidy amount awarded to a client may increase or decrease based on a change in the family composition.

Although DHS paid the correct amounts for these three cases, they failed to update the family composition in the computer application. Since there are several units involved in the processing and monitoring of the WADV program and since they rely on the data in the computer application, it is imperative that DHS staff update such information promptly. This is of even greater importance when taking into account the risk of case files being misplaced or lost. DHS officials stated that the incorrect payments and the failure to update the computer system were the result of errors on their part.

Based on our observations of the entire leasing process, we believe that there are various steps of review built into the process that should have enabled the detection of errors and inconsistencies. In fact, the files are required to be reviewed by a supervisor on two occasions prior to lease signing and on one occasion afterwards. Despite this safeguard, errors and inconsistencies were not detected during any stages of the lease signing. One reason for this may be the failure to create and consistently follow established procedures. DHS officials need to review their procedures and assess the effectiveness of their current process in detecting errors and inconsistencies.

**DHS Response:** “The Draft Report alleges that 15 of the 47 case files the auditors examined reflected that the cases were not processed in accordance with DHS’ lease signing policies. At a June 1, 2010 meeting with the auditors, DHS explained that eight of these cases had, in fact, been properly processed. Therefore, references to these errors should be removed from the Report. In addition, the remaining errors were minor omissions that with the exception of *one* (emphasis in the original) overpayment of \$1,316 contained neither any financial repercussions nor any incorrect verifications of ownership.

“Indeed, in the global context of Work Advantage . . . the few errors raised in the draft report are insignificant and there is no evidence that any of these errors had any impact on a client’s tenancy.”

**Auditor Comment:** DHS legal counsel offered various reasons as to why the missing documents were not required for five of the eight cases referred to in its response. (In previous discussions, Counsel had conceded that there were processing errors in the remaining three cases.) However, his explanations were in stark contrast to DHS policy and procedure and also contradicted statements made to us by the case workers and the OOR Director.

Contrary to DHS’s assertion, the errors cited in the report are not few or insignificant. The fact remains that DHS officials were not able to find six percent of the case files in our sample, and 32 percent of the remaining cases were not processed properly. Regarding DHS’s claim that there is no evidence that these errors had affected the client’s tenancy, we are not able to comment on the accuracy of the statement because the research necessary to determine its veracity was outside the scope of this audit.

## **Recommendations**

DHS should:

9. Establish a logging system for accessing and retrieving WADV case files.
10. Emphasize to case workers the importance of obtaining all the required documentation and signatures required in the lease-signing process.

***DHS Response to Recommendations 9 and 10:*** "... in connection with the new Advantage program, DHS will implement a case file logging system and reinforce through training the importance of maintaining complete files."

11. Take steps to assess the effectiveness of the process in detecting errors and inconsistencies before payments are processed.

***DHS Response:*** DHS did not address recommendation 11.

Seth Diamond  
Commissioner

June 23, 2010

Fran S. Winter  
First Deputy Commissioner

**BY HAND**

Anne Heller  
Deputy Commissioner  
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Re: DHS' Response to Audit Report on the Monitoring of the Agency's Work Advantage Program, No. MG10-60A

212.361.0626 tel  
212.361.0622/32 fax

Dear Ms. Kim:

This letter is in response to the Draft Audit Report dated June 7, 2010 ("Draft Report"), concerning the Department of Homeless Services' ("DHS" or "Agency") monitoring of Work Advantage, a rental subsidy for homeless families and individuals who work, and the centerpiece of Advantage NY, the City's rental assistance program to help clients leave shelter for homes of their own ("Advantage Program" or "Program").

**I. INTRODUCTION**

**Work Advantage**

Since April 2007, when DHS first implemented the Advantage Program, through May 31, 2010, more than 19,180 families and individuals have used one of the Advantage subsidies — including 9,840 in receipt of Work Advantage — to move out of shelter into permanent housing. The Advantage Program has also been central to DHS' successful efforts to reduce the length of time families spend in shelter. The average length of stay has fallen by 25 percent, allowing families to return to their communities more quickly and saving the city substantial money in shelter costs. The Program, however, offers more than rental assistance; it also provides a strong incentive for families to obtain and retain employment. Indeed, 80 percent of Work Advantage clients retained a strong employment record in the first year of the Program and qualified for a second year of the subsidy.

**Homebase and Anti-Eviction Legal Services**

While in shelter, DHS clients receive, among other services, assistance in finding and leasing suitable housing. Upon exit from shelter, Work Advantage clients are referred to DHS' award-winning Homebase program, a community-based network of providers that offer an array of preventive services in locations throughout the

five boroughs. The program provides case management and financial assistance to help families and individuals stay stably housed in the community, including mediation with landlords, job search assistance, benefits advocacy, household budgeting and relocation assistance.

The Agency's wraparound approach to serving homeless families and single adults also includes legal services where necessary to keep clients housed in their own homes. Since 2002, DHS' seven anti-eviction legal services providers have represented over 30,000 families in housing court with 90 percent remaining stably housed for at least one year. DHS is very proud of these accomplishments and on August 1, 2010, will implement a revised rental assistance program to capitalize on the success of Work Advantage.

### **Multiple Quality Assurance Checks for Suitable and Safe Apartments**

In linking Work Advantage clients to permanent housing, DHS Family Services' Office of Re-Housing ("OOR") employs a multi-step process with built-in quality assurance checks that ensures, to the greatest extent possible, families and individuals move out of shelter and into apartments that are suitable and safe. Upon a landlord's or broker's registration of an apartment with OOR's **Customer Service Center** ("CSC"), OOR's **Clearance Unit** performs a series of data matches with the Department of Finance, Department of Buildings, Department of Housing Preservation and Development, and Department of Mental Health and Mental Hygiene for a variety of information, including open violations. The Clearance Unit will not clear an apartment for physical inspection if: (1) there is an open violation for a lead-based paint hazard in the unit; (2) comprehensive litigation has been filed against the building; (3) there is a vacate order issued to the unit and/or the building, or (4) the apartment has an open violation for illegal conversion.

OOR's **Inspection Unit** uses only HUD-trained and certified inspectors to inspect apartments in accordance with HUD's Housing Quality Standards.<sup>1</sup> Inspectors conduct a room-by-room inspection of each Work Advantage apartment during which they must fill out HUD's inspection checklist, which contains at least 70 items of inspection. If an apartment fails inspection, the property representative must address any needed repairs or remediation, and the apartment will undergo a re-inspection to ensure that such work was done. If an apartment passes inspection, inspectors take photographs of every room for inclusion in their inspection report.

OOR's **Linking Unit** re-verifies clients' eligibility for the Advantage Program, and checks for proof of legal ownership through the ACRIS system of any properties that pass inspection and are ready for occupancy. Upon such verification, the Unit links a program-eligible client with an eligible apartment and forwards the case to OOR's **Lease Signing Unit**. Lease Signing prepares a case file and assigns it to a caseworker who schedules a lease signing appointment, prepares various forms to be signed by the tenant and landlord and requests various checks in connection with the signing (e.g., three months' advance rent, one month security deposit). At lease signing, the caseworker instructs the client and property representative to sign various documents including the lease and lease-related documents, provides apartment keys to the client, schedules the move-in date and refers the client to the **Relocation Unit**. Upon referral or after lease signing, the Relocation caseworker provides a variety of services to clients, including authorizing a public assistance grant for the purchase of furniture, and arranging with contracted companies for the moving of client's personal belongings.

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<sup>1</sup> "HUD" is the acronym for the U.S. Department of Housing and Urban Development.

We now turn to a summary of DHS' responses to the Draft Report's five major findings and eleven recommendations followed by the Agency's detailed response to each of the Report's recommendations and the findings on which they are based.

## II. EXECUTIVE SUMMARY

### Finding No. 1

The Draft Report concludes that "DHS does not adequately distribute and enforce its policies and procedures," as a result of which "it cannot be certain that [Work Advantage] is carried out in accordance with its guidelines," and this creates "the risk that clients may not be placed in the most suitable or appropriate housing." (Report, p. 8)<sup>2</sup> The Draft Report therefore recommends that the Agency update its policies and procedures, distribute them to all employees on a timely basis, and ensure that staff adheres to the policies and procedures in the course of processing Work Advantage rental assistance.

Contrary to these findings, staff from various divisions involved in implementing Work Advantage received appropriate informational and training materials necessary to educate staff about the program as well as on-the-job training and ongoing oversight and guidance from managers and supervisors. To aid the auditors in understanding the various components of Work Advantage, in September 2009, DHS codified the Program's policies and procedures in a written manual. While there is no basis in the Report for finding that the absence of a codified manual created any risk to clients, DHS will update the manual to reflect policies and procedures governing its new Advantage program and distribute the manual to all employees tasked with implementing the new rental assistance program.

### Finding No. 2

The Draft Report concludes that "DHS has insufficient controls to deal with landlords and brokers who pressure their tenants to pay additional rent payments outside their lease agreements, otherwise known as side deals" (p. 10), and recommends that DHS coordinate its efforts with Homebase providers to keep track of all landlords and brokers who charge side deals, establish procedures to hold such landlords and brokers accountable, and refrain from working with such landlords in the future. (p. 13). The Report also recommends that DHS review its procedures for educating clients about side deals so that clients are better informed of their rights. (*Id.*)

DHS has multiple controls in place to prevent side deals. Prohibitions against side deals are contained in Work Advantage leases and other leasing documents, in information that shelter and lease signing staff provide to clients and on the DHS website. Moreover, DHS has specifically drafted its leasing documents to ensure that should a landlord bring eviction proceedings against a tenant for nonpayment of a side deal, any such deal would be rendered unenforceable as a matter of law. DHS also provides Work Advantage tenants with legal representation in order to defend against eviction for failure to pay rent in excess of the lease amount. Although DHS believes its controls against side deals are more than adequate, as we seek to implement the new Advantage program, we will reinforce the prohibition against side deals in staff trainings and in our communications with clients, landlords and brokers about the new program. DHS also will insert warnings against side deals in materials we provide shelter clients when they start looking for permanent housing.

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<sup>2</sup> Hereinafter, all numbers in parentheses are to page numbers of the Draft Report.

**Finding No. 3**

The Draft Report concludes that “DHS has no formal procedures with which to track landlords who have records of outstanding violations and owe money to the City” (p. 13), and recommends that DHS re-examine its clearance procedures to set more stringent thresholds and guidelines with respect to building violations, and explore the feasibility of coordinating efforts with the Department of Buildings (“DOB”) and the Department of Housing, Preservation and Development (“HPD”) to ensure that DHS does not register apartments in buildings owned by landlords who do not resolve violations and pay associated fines. (p. 17)

DHS has a robust system of quality assurance checks to ensure that clients move into housing that is safe. This includes clearance checks for vacate orders, lead-based paint hazards, illegal conversions and HPD comprehensive litigation against the building as a whole. In addition, each Work Advantage apartment is physically inspected by inspectors who receive training in, and conduct inspections in accordance with, HUD’s Housing Quality Standards (“HUD Standards”). These are the very same standards used to inspect NYCHA housing and Section 8 apartments. While the Draft Report specifically acknowledges that the auditors’ review of case files found that DHS “generally ensured that most of these standards were met before registering units” (p. 14), the Report recommends that the Agency should nevertheless reject apartments in buildings that have open HPD and DOB violations and associated fines, which are *not* specific to the apartment potentially to be leased but rather, concern common areas or other apartments in the building. We disagree. Through the Agency’s own registration, clearance and inspection protocols, and assisted by City agencies charged with enforcing the City’s housing safety laws, DHS ensures safe housing for all of its clients exiting shelter with a Work Advantage subsidy.

**Finding No. 4**

The Draft Report concludes that “DHS lacks policies and procedures to ensure that its inspectors are monitored or reviewed periodically by the Director of its Inspections Unit” (p. 18), and recommends that “DHS ensure that periodic and random reviews are conducted of all its inspectors and that these reviews be documented and discussed with inspectors on a regular basis.” (*Id.*) At the Audit Exit Conference (“Exit Conference”), the auditors clarified that they do not dispute that such monitoring takes place, but opined that such monitoring should be documented in writing. All apartments inspected for the Advantage Program must receive a supervisor’s approval before passing to the next stage in the review process. This means that each and every inspection report, including photographs of apartments that pass inspection, is reviewed by the Director of the Inspections Unit. As noted in the Draft Report (p. 18), DHS’ Director of Inspections performs random and unannounced Quality Assurance Checks (*i.e.*, supervisory reviews) of inspectors each month. In addition all of the Agency’s inspectors receive training on what constitutes illegal conduct and their obligation to report all such conduct to the Department of Investigation. Ongoing supervision of inspectors and routine quality assurance checks of inspections are sufficient to ensure that inspections are conducted in conformity with HUD Standards.

**Finding No. 5**

The Draft Report concludes that “DHS lacks adequate controls for the maintenance of its case files” (p. 18), and recommends that DHS establish a logging system for accessing and retrieving Work Advantage files, emphasize the importance of obtaining all required documentation required in the lease-signing process, and take steps to assess the effectiveness of the process in detecting errors and inconsistencies before payments are processed. (p. 20) This recommendation is primarily based on the finding that in a few cases, Work Advantage case files were not processed in conformity with the Agency’s lease signing policies. However, as DHS explained at a meeting with the auditors on June 1, 2010, these errors were negligible. Nevertheless, in



order to ensure comprehensive tracking of all client case files, DHS will implement a case file logging system for its new Advantage program.

### III. RESPONSE TO RECOMMENDATIONS

Recommendation Nos. 1-2 state that DHS should:

1. Update its policies and procedures and distribute them to all employees on a timely basis.
2. Ensure that employees are thoroughly familiar with and adhere to all DHS policies and procedures in the course of processing [Work Advantage] cases.

DHS disagrees with the central premise of these recommendations — that because DHS lacked a “formal” manual at the inception of the Advantage Program, Agency staff failed to adhere to certain policies and procedures and, as a result, created a risk that clients might not be placed in the most suitable or appropriate housing. The Audit Report fails to point to a single instance where an Advantage participant actually moved into an apartment with unsafe conditions because DHS had failed to comply with OOR procedures.

Shortly after commencement of the audit, DHS provided the auditors with written procedures governing the role of each of the various units within each DHS division tasked with implementing various aspects of Work Advantage, including OOR’s procedures and other DHS division functions. Accompanying these procedures were over 60 forms used to implement, document, and track the Advantage Program as well as training materials, organizational charts, flow charts and information concerning the computer systems used in processing and tracking Work Advantage participants. Although these procedures were labeled “draft,” DHS explained to the auditors that they reflected the actual practices and processes in place since the inception of the Program and were followed since that time. (See letter from DHS attorney [REDACTED] to [REDACTED], Auditor-in-Charge and accompanying documents, dated September 25, 2009). The Agency also updated each of these procedures to reflect current Program practices as of September 2009 and codified all of OOR’s procedures and forms in one manual (“OOR Manual”). (See [REDACTED] letter to [REDACTED] dated September 30, 2009).<sup>3</sup> We do recognize, however, that a formal operations manual is a useful tool to avoid staff confusion about DHS’ policies and procedures governing operation of the Agency’s rental assistance program. Therefore, going forward, we will expand the OOR Manual to include the procedures of the other DHS divisions and units that will implement the new Advantage Program.

Recommendation Nos. 3-5 state that DHS should:

3. Coordinate its efforts with the HomeBase officials and keep track of all landlords and brokers that have engaged in the practice of side deals.

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<sup>3</sup> While the Draft Report recognizes that the Case Management Field Team (the unit within Family Services that determines clients’ eligibility for Advantage subsidies) and the Customer Service Center had codified manuals prior to commencement of this audit, the auditors did not question any staff from these units about whether or not they had a manual. (p. 9) As for the OOR employees who advised the auditors that they had never received a formal manual or could not find their copy, the Draft Report did not conclude that any of them had encountered problems in finding answers to questions or were unaware of what procedures to follow. Nor did the auditors find that there was a systemic lack of familiarity with policies and procedures on the part of DHS staff involved in implementing the Advantage Program.

4. Establish and enforce procedures that hold landlords and brokers who participate in side deals accountable and refrain from working with those individuals in the future.
5. Review its procedures for educating clients during their stay in the shelters and for disseminating accurate information at the lease signing so that clients are better informed of their rights.

DHS' prohibition against side deals is emphasized during the training of shelter and Advantage Program staff, explicitly stated in the training materials they receive, included in Work Advantage literature given to clients, landlords and brokers, featured prominently in Work Advantage leases and lease-related documents, and displayed on the Agency's website. If DHS learns that a landlord is charging a Work Advantage tenant rent in excess of the amount stated on the lease, DHS informs the tenant not to pay the side deal and connects the family to their local HomeBase program for assistance. If the landlord is threatening eviction or nonpayment, DHS refers the tenant to one of our anti-eviction legal services providers.

DHS staff provides Homebase programs with the addresses of Advantage participants who move into their communities. HomeBase providers reach out to Advantage tenants through mailings and invitations to community events. Tenants in different communities can be offered workshops on such topics as Earned Income Tax Credits, transitional benefits financial literacy, and career advancement. DHS provides Advantage newsletters in English and Spanish providing key telephone numbers including those for aftercare services, savings tips, and updates on resources.

In addition, DHS established an Aftercare Helpline that responds to callers' inquiries about the Advantage Program and informs callers which Homebase provider they should contact for assistance. This helpline number is posted on the DHS website. If Work Advantage participants call 311, the central helpline for city services, the 311 operator will connect them to DHS Prevention, which, in turn, will connect them to the HomeBase provider nearest to where they live.

Contrary to the Draft Report's finding that "clients are not aware of the aftercare services provided by Homebase programs" (p. 11), the Work Advantage Certification letter notifying clients of their eligibility for Work Advantage states that aftercare services will be available to assist them once they move into their apartment. Moreover, one of the documents clients must sign at lease signing, the Participant Statement of Understanding, contains similar information. In addition, Homebase services, Homebase office locations and Homebase phone numbers are described on the DHS website.

Notwithstanding all of the prohibitions in place prohibiting and warning against side deals, and the availability of legal services for Advantage clients who face eviction for failure to pay them, the Draft Report finds these controls insufficient. But, this finding is based on a number of incorrect assumptions.

The Draft Report states that "the mechanisms listed by DHS to prevent side deals are rendered useless if DHS is not willing to enforce the stipulations cited in the lease." (p. 13) (emphasis added). This is simply not true. The Agency has ensured that the language of the lease and related documents provide the proper legal foundation for challenging side deals in court. In fact, with legal assistance provided by DHS' anti-eviction legal services providers, tenants have successfully defended against nonpayment or eviction proceedings *based on* the prohibition against side deals in the lease and related documents.

Next, the Draft Report states that “[a]ccording to a number of clients interviewed, in fact, homeless shelters are encouraging the clients to accept apartments with side deals” (p. 12). The Report makes this assertion without having interviewed *any* staff at the shelters where these clients stayed. DHS takes strong exception to this unsubstantiated statement given that the auditors failed to elicit shelter staff’s response to this allegation or interview staff of *any* shelters, such as housing specialists or other staff who assist clients in obtaining Advantage subsidies and finding permanent housing. In fact, the only DHS Family Services employee that the auditors interviewed, other than OOR staff, was a Family Services Program Analyst and the interview was limited to how manually-generated Work Advantage certification letters are delivered to clients. Shelters are prohibited from taking any punitive action against shelter clients for refusal to accept side deals, and the Draft Report does not allege any conduct on the part of shelter staff to the contrary.

Finally, the Draft Report states that at 5 of the 7 lease signings observed by the auditors, the client’s case worker did not make a reference to side deals. (p. 12). The auditors therefore conclude that “[their] observations of the lease signings revealed that clients were not in fact educated about side deals during the signing of leases.” (*Id.*) Yet, the Report makes no mention of the lease and related documents that clients sign which contain specific prohibitions against side deals. This includes the prohibition in the “Work Advantage Tenant Reminder of Important Payments,” which appears immediately above the space indicated for the client’s signature and contains the following warning in bold-face type, including underscoring and capitalized text:

**Please Read:**

**I AM NOT OBLIGATED TO PAY THE LANDLORD, MANAGING AGENT, SUPER AND/OR BROKER, nor pay any additional FEES other than the amount stated on the Work Advantage Program Commitment Letter and signed lease for use and occupancy of the above mentioned Premises.**

As shown above, DHS has a strong system of internal controls with respect to the prevention of side deals. Nevertheless, to ensure that all parties are aware of the prohibition on side deals and the control measures to combat them, DHS will reinforce this prohibition prior to lease signing by including it with the certification letter that shelter clients will receive notifying them of their eligibility under the new program. DHS also will consider ways to increase clients’ awareness of Homebase services prior to and at lease signing.

Recommendation Nos. 6-7 state that DHS should:

6. Re-examine its current clearance procedures and set stringent thresholds and guidelines with regard to building violations to ensure that apartments in buildings with numerous hazardous violations are not registered.
7. Explore the feasibility of coordinating efforts with DOB and HPD to ensure that it does not register apartments in buildings owned by landlords who do not take appropriate action to resolve violations in those buildings and pay the associated fines.

First, the Draft Report repeatedly refers to the “registration” of units with open violations as a problem. As explained during the Exit Conference, “registration” of an apartment simply involves a landlord or broker calling the CSC Unit to sign up for participation in the Program. This step precedes apartment clearance, inspection and lease signing. Thus, it is inaccurate for the Draft Report to recommend that DHS prevent the “registration” of apartments with open violations (p. 13), as “registration” is merely the first step in the

process. It is the subsequent checks by the Clearance and Inspection Units that weed out apartments with violations.

Next, as detailed in Section I above, and as the Draft Report acknowledges (*see* p. 14), DHS ensures that its registration, clearance and inspection standards are met before linking Work Advantage clients to specific apartments. These multi-step quality assurance checks include data matches with four separate agencies — DOF, DOB, HPD and DOHMH — to check that each proposed apartment:

- does not have any open violations for lead-based paint hazards;
- is not in a building against which HPD has pending litigation;
- is not subject to a DOB or HPD vacate order or to a vacate order covering the entire building;
- does not have an open violation for illegal conversion; and
- was offered by a landlord whom DOF's records verify as the legal owner.

If an apartment fails to meet any one of the above conditions, DHS will not clear it for inspection.

DHS adheres to a robust inspection process, key attributes of which include:

- inspection of each apartment by inspectors trained and certified in conducting inspections in accordance with HUD Standards — Standards that are used not only to inspect all NYCHA and Section 8 apartments in New York City, but also are utilized by public housing authorities overseeing Section 8 programs across the nation;
- inspection of each room in an apartment utilizing HUD's inspection checklist (Form HUD-52580-A), which contains at least 70 items of inspection;
- failing an apartment if it receives a fail check on HUD's inspection checklist;
- Re-inspection of a failed apartment to ensure that all repairs/remediation are made before allowing the apartment to go to Linking; and
- Photographing each room in apartments that pass inspection and maintaining the photos in the apartment's inspection file.

Notwithstanding this comprehensive process of multiple quality assurance checks and apartment inspections conducted in conformity with nationally-recognized standards, the Draft Report recommends that the Agency not link Work Advantage clients to apartments in buildings with landlords have violations listed on enforcement agency websites, and/or have not paid any associated fines. (p. 17). The Report recommends this even in instances where the violations do not concern the apartment in question, where there are no vacate orders with respect to the apartment or the building, and/or where the building is not the subject of comprehensive litigation. DHS disagrees with this recommendation for the following reasons.

First, the Draft Report does not cite a single instance of an apartment that passed Clearance and subsequently became subject to an HPD or DOB vacate order after the Advantage participant had moved into the apartment. Moreover, as stated in the OOR Manual, and explained during the auditors' interviews of OOR staff and at the Exit Conference, Clearance staff checks for HPD and DOB vacate orders with respect to individual apartments *and* the building in which the apartment is located. Clearance further checks whether the apartment is in a building against which HPD has pending litigation.

Second, ensuring apartments are free of health and safety hazards does not end with Clearance checks. As stated, each apartment registered by a landlord or broker and passed by the Clearance Unit undergoes a thorough inspection by HUD-trained and certified inspectors, which ensures that apartments do not pass through to Linking unless they meet HUD Standards. Thus, the Draft Report's statement that the clearance process would not fail an apartment due to HPD violations for conditions such as faulty wiring, leaks or rodents (p. 12) misses the point. Such conditions *would* indeed be detected through the inspection process.<sup>4</sup> These inspections, combined with Clearance checks, ensure to the greatest extent possible that Advantage clients reside in safe housing upon their exit from shelter.

Third, failure to pay fines imposed by HPD or DOB for certain kinds of violations does not necessarily mean that the apartment is unsafe for occupancy. Making repairs and paying fines is part of a process that can take a long time. Thus, it is possible that a landlord could make all repairs necessary to cure a violation, but without the payment of outstanding fines, HPD's or DOB's database would not reflect that remediation. To hold up homeless families' move-outs until a landlord pays all fines that might have nothing to do with the apartment in question would hinder families' expeditious move out from shelter and into permanent housing. Enforcement of building fines against landlords is accomplished by agencies tasked with that role.

Fourth, HPD, DOB, and other city agencies have enforcement authority with respect to life and safety laws, and rules and regulations serving all New York City residents. These agencies are authorized to issue violations and summonses to building owners who have failed to meet their responsibilities. Through these and other agencies' coordination and efforts, the City provides effective mechanisms of review and enforcement to ensure the safety of the City's housing stock. Tenants can trigger these processes by calling 311 to file a complaint if they believe conditions in their apartment or building violate applicable laws or regulations or pose a threat to their health or safety. As noted above, DHS implemented a dedicated helpline of its own for Advantage participants or call 311. In either case, the caller will be connected to the HomeBase provider nearest to where they live.

It also is OOR's practice to provide clients at lease signing with information about governmental enforcement agencies to contact about issues involving conditions in their apartment or building. In implementing the new Advantage Program, DHS will include with the client's certification letter, information about their rights and obligations as tenants (including the prohibition against side deals) as well as obligations of landlords. In this way, clients will have this information as they begin their search for permanent housing.

**Recommendation 8 states that DHS should:**

8. Ensure that periodic and random reviews are conducted of all its inspectors and that these reviews are documented and discussed with inspectors on a regular basis.

The Draft Report bases this recommendation on its finding that "DHS lacks policies and procedures to ensure that the inspectors are monitored or reviewed periodically by the Director of its Inspection Unit" (p. 18). Contrary to this finding, the Director of Inspections must approve every inspection report before an apartment can be passed through to Linking, and the Director of Inspections makes unannounced quality assurance checks on inspectors during their inspection of registered apartments. In addition, all inspectors

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<sup>4</sup> The Draft Report states that three of the 95 buildings that the auditors sampled for violations had HPD vacate orders at the time of lease signing. DHS' check for this information during Clearance and, again, after the Exit Conference did not find any evidence of vacate orders with respect to them.

take photographs (or digital video) of every apartment that passes inspection. Upon explaining this to the auditors at the Exit Conference, they expressed their opinion that the Director of Inspections should document in writing the results of his quality assurance checks. We will consider whether to adopt this recommendation upon implementation of the new Advantage program.

**Recommendations 9-11 state that DHS should:**

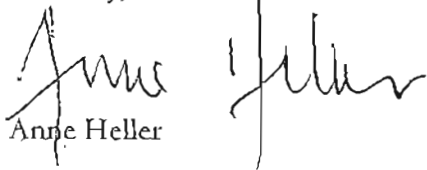
9. Establish a logging system for accessing and retrieving [Work Advantage] case files.
10. Emphasize to case workers the importance of obtaining all the required documentation and signatures required in the lease-signing process.
11. Take steps to assess the effectiveness of the process in detecting errors and inconsistencies before payments are processed.

These recommendations are based on purported errors in processing case files. The Draft Report alleges that 15 of the 47 case files the auditors examined reflected that the cases were not processed in accordance with DHS' lease signing policies. At a June 1, 2010 meeting with the auditors, DHS explained that eight of these cases had, in fact, been properly processed. Therefore, references to these errors should be removed from the Report. In addition, the remaining errors were minor omissions that with the exception of *one* overpayment of \$1,316 contained neither any financial repercussions nor any incorrect verifications of ownership.

Indeed, in the global context of Work Advantage — over the 3-year period April 2007 through May 31, 2010, 9,840 homeless families and individuals moved into permanent housing on a Work Advantage subsidy — the few errors raised in the Draft Report are insignificant and there is no evidence that any of these errors had any impact on a client's tenancy. Nevertheless, in connection with the new Advantage program, DHS will implement a case file logging system and reinforce through training the importance of maintaining complete files.

In closing, DHS thanks the Comptroller's audit staff members for their efforts in performing this review.

Sincerely,

  
Anne Heller

cc: Seth Diamond/DHS  
Fran Winter/DHS  
Steve Pock/DHS  
Lula Urquhart/DHS  
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