



Strengthening the Frontline:

An Analysis of Human Services Contracts in NYC

New York City Comptroller Scott M. Stringer

Bureau of Policy and Research

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After-school programming, senior centers, counseling, foster care, homeless shelters: few of these frontline services are directly provided by City agencies. Instead, the vast majority of the City's core human services are contracted out to non-governmental (and typically non-profit) providers that deliver these critical resources to New Yorkers of all ages, needs, and incomes.

And yet, while these non-profits are essential for the continued health and welfare of all city residents, many struggle to stay solvent, fully support their programming, and adequately pay and retain quality staff. This is due, in part, to the underfunding of government contracts.

This issue brief from New York City Comptroller Scott M. Stringer analyzes one aspect of this underinvestment: the "indirect costs" of service delivery.

Indirect expenses are essential to efficient, effective, and accountable service delivery. Staff training, research, strategic planning, auditing, and performance evaluation and tracking can all be indirect costs. Infrastructure replacement and maintenance – whether for elevators, leaking roofs, air conditioning, computers and software, security, or other systems critical to the safety of vulnerable New Yorkers – are often covered under indirect costs as well. When these expenses are not sufficiently covered in City contracts, non-profits are severely hobbled and many vulnerable New Yorkers are deprived of high-quality, critical services.

In Fiscal Year 2016, the City's six core human services agencies – Administration of Children's Services, Department of Homeless Services, Department of Youth and Community Development, Department for the Aging, Human Resources Administration, and Department of Health and Mental Hygiene – registered 7,665 human services program contracts with nongovernmental providers totaling \$4.2 billion.ⁱ This accounted for 93 percent of all human services contracts registered by the City.

Human Services Procurement by Agency, FY 2016		
Agencies	Contracts	Contract Value
ACS	763	\$1,363,081,900
DHS	291	\$937,654,500
DYCD	4,380	\$883,737,600
HRA	368	\$380,682,900
DFTA	1,460	\$309,006,200
DOHMH	403	\$289,642,700
All Others	549	\$547,961,678
Total	8,214	\$4,711,767,478

In total, these human services contracts directly supported 52,678 jobs at local social service organizations.ⁱⁱ This is nearly double the 27,649 employees at the City’s six core social services agencies – evidence of the City’s dependence on outside organizations and workers to provide frontline services.

When contracting with social service providers, contracts are generally divided into three parts: personnel costs (known as “personal service” or “PS”), non-personnel costs (known as “other than personal services” or “OTPS”), and indirect costs. Personnel costs include salaries and benefits for those employees directly engaged with service delivery, including caseworkers, counselors, program directors, specialists, and others. Non-personnel costs include supplies and equipment, space rental, insurance, maintenance, transportation, food and refreshment, and any other costs directly related to the program.

Indirect costs, meanwhile, are more difficult to calculate, though no less essential. They typically include salaries and benefits for an organization’s administrative staff, such as executive directors, fiscal officers, contract managers, IT support, and researchers. They also may include utilities, facilities, security systems, technology, and other expenses associated with administrative offices or any other activities not directly related to service provision.

It can be difficult to determine the exact share of an organization’s indirect expenses that sustain each of its programs, and therefore indirect costs are generally paid out as a percentage of direct personnel and non-personnel expenses. For instance, the Federal Office of Management and Budget issued Uniform Guidance in 2013 that set a 10 percent de minimus for indirect costs on contracts directly issued or partially funded by the Federal government. Under this federal guidance, non-profit human services providers could also elect to negotiate an indirect cost rate, allowing them to receive an allotment exceeding the 10 percent de minimus.ⁱⁱⁱ

Many programs are funded by a combination of State, City and Federal dollars, but the Federal indirect cost rate applies only to the portion of a contract that is funded by Washington.^{iv} That makes it exceedingly difficult to determine whether a State or City contract is in compliance with the Federal guidance. It is possible, however, to chart the indirect cost rate that City agencies apply to each contract and determine whether they are sufficiently and consistently helping providers cover these essentials costs.

In this analysis, the Comptroller’s Office randomly selected and reviewed 105 City contracts awarded to 76 non-profit providers across six human services programs: the DYCD Beacon after-school program, DFTA case management, ACS preventive services, DHS Tier II shelters for homeless families, and DOHMH and HRA supportive housing.^v

Across the contracts examined, 58 had indirect cost rates below 10 percent and the average indirect cost rate was 8.6 percent.^{vi} Overall, rates ranged from zero percent to seventeen percent.

While nearly every agency provided an indirect cost rate, this listed rate can be misleading because many agencies calculate it differently.^{vii} DHS Tier II family shelter contracts, for instance, listed “rent” after indirect costs – rather than within OTPS – thus applying the indirect cost rate to a lower sum. The DYCD Beacon Program, meanwhile, applied the rate as a percentage of the entire contract rather than calculating it as a percentage of PS and OTPS. As a result, it actually provided a *higher* rate than was listed on the contract.

ACS Preventive Services Contracts

Indirect cost rates paid for ACS preventive services contracts ranged from zero percent to 14 percent. The average was 8.67 percent. Rates for 12 of the 20 contracts examined were below 10 percent. While each ACS contract explicitly stated that the “overhead” rate “should not exceed 10 percent of PS & OTPS,” three of the contracts did so.

ACS Preventive Services			
Provider	Listed Indirect Rate	Provider (cont'd)	Listed Indirect Rate (cont'd)
Nonprofit 8	14.0%	Nonprofit 69	9.0%
Nonprofit 21	12.0%	Nonprofit 59	9.0%
Nonprofit 6	11.0%	Nonprofit 22	9.0%
Nonprofit 2	10.0%	Nonprofit 38	8.0%
Nonprofit 40	10.0%	Nonprofit 46	8.0%
Nonprofit 63	10.0%	Nonprofit 24	8.0%
Nonprofit 11	10.0%	Nonprofit 66	7.0%
Nonprofit 5	10.0%	Nonprofit 10	6.6%
Nonprofit 31	9.8%	Nonprofit 68	3.0%
Nonprofit 20	9.0%	Nonprofit 28	0.0%

DFTA Case Management Contracts

Indirect cost rates paid for DFTA case management contracts ranged from zero percent to 10 percent. The average was 7.08 percent. Rates for eight of the 14 contracts we examined were below 10 percent.

DFTA Case Management			
Provider	Indirect Rate	Provider (cont'd)	Indirect Rate (cont'd)
Nonprofit 65	10.0%	Nonprofit 61	8.0%
Nonprofit 30	10.0%	Nonprofit 56	7.8%
Nonprofit 37	10.0%	Nonprofit 7	7.0%
Nonprofit 41	10.0%	Nonprofit 54	5.5%
Nonprofit 60	10.0%	Nonprofit 53	1.0%
Nonprofit 52	10.0%	Nonprofit 36	0.4%
Nonprofit 13	9.5%	Nonprofit 45	0.0%

DOHMH Supportive Housing Contracts

While DOHMH did not explicitly list an indirect cost rate for its supportive housing contracts, it can be inferred by dividing its “Agency Administration” outlay by the PS and OTPS expenses. These indirect costs rates ranged from zero percent to 17 percent. The average was 9.63 percent. Rates for seven of the 24 contracts we examined were below 10 percent.

DOHMH Supportive Housing			
Provider	Indirect Rate	Provider (cont'd)	Indirect Rate (cont'd)
Nonprofit 67	17.0%	Nonprofit 5	10.0%
Nonprofit 42	11.9%	Nonprofit 70	10.0%
Nonprofit 35	11.4%	Nonprofit 74	10.0%
Nonprofit 6	11.2%	Nonprofit 9	10.0%
Nonprofit 1	11.1%	Nonprofit 6	10.0%
Nonprofit 6	10.9%	Nonprofit 5	9.9%
Nonprofit 23	10.6%	Nonprofit 19	8.9%
Nonprofit 39	10.0%	Nonprofit 48	8.5%
Nonprofit 24	10.0%	Nonprofit 49	8.0%
Nonprofit 15	10.0%	Nonprofit 19	6.0%
Nonprofit 14	10.0%	Nonprofit 19	5.9%
Nonprofit 24	10.0%	Nonprofit 29	0.0%

DHS Tier II Shelters for Homeless Families Contracts

Indirect cost rates paid for DHS Tier II contracts ranged from 6 percent to 8.5 percent. The average was 8.14 percent. Rates for all seven of the contracts examined were below 10 percent.

DHS Tier II	
Provider	Indirect Rate
Nonprofit 33	8.5%
Nonprofit 5	8.5%
Nonprofit 75	8.5%
Nonprofit 71	8.5%
Nonprofit 57	8.5%
Nonprofit 33	8.4%
Nonprofit 16	6.1%

HRA Supportive Housing Contracts

Indirect cost rates paid for HRA supportive housing contracts were 8 percent (with a single deviation of 5.6 percent). The average was 7.85 percent. Rates for all 16 of the contracts examined were below 10 percent.

HRA Supportive Housing			
Provider	Indirect Rate	Provider (cont'd)	Indirect Rate (cont'd)
Nonprofit 72	8.0%	Nonprofit 12	8.0%
Nonprofit 51	8.0%	Nonprofit 9	8.0%
Nonprofit 50	8.0%	Nonprofit 6	8.0%
Nonprofit 47	8.0%	Nonprofit 4	8.0%
Nonprofit 44	8.0%	Nonprofit 3	8.0%
Nonprofit 39	8.0%	Nonprofit 6	8.0%
Nonprofit 32	8.0%	Nonprofit 6	8.0%
Nonprofit 18	8.0%	Nonprofit 71	5.6%

DYCD Beacon After-School Program Contracts

Indirect cost rates paid for DYCD Beacon contracts ranged from zero percent to 10 percent. The average was 8.9 percent. Rates for eight of the 24 contracts examined were below 10 percent.

DYCD Beacon			
Provider	Indirect Rate	Provider (cont'd)	Indirect Rate (cont'd)
Nonprofit 34	10.0%	Nonprofit 31	10.0%
Nonprofit 73	10.0%	Nonprofit 43	10.0%
Nonprofit 43	10.0%	Nonprofit 43	10.0%
Nonprofit 76	10.0%	Nonprofit 43	10.0%
Nonprofit 58	10.0%	Nonprofit 11	9.1%
Nonprofit 62	10.0%	Nonprofit 55	9.1%
Nonprofit 64	10.0%	Nonprofit 59	9.1%
Nonprofit 65	10.0%	Nonprofit 68	9.1%
Nonprofit 24	10.0%	Nonprofit 26	8.7%
Nonprofit 24	10.0%	Nonprofit 27	8.5%
Nonprofit 6	10.0%	Nonprofit 25	0.0%
Nonprofit 6	10.0%	Nonprofit 17	0.0%

Conclusion and Recommendations

From homeless shelters to after school programs, mental health to family services, the City relies on local non-profits to provide frontline human services. It does so because it believes non-profits can deliver them more cheaply, more flexibly, and, because of their local knowledge and ability to experiment, more effectively. This promise, however, cannot be fulfilled without adequate funding for non-profit contracts.

Moving forward, the City should consider the following steps to bring greater uniformity, transparency, and, above all, sufficient funding to our non-profit partners.

1. The City should develop a standard definition of “Indirect Costs,” “Personal Services,” and “Other than Personal Services” and apply the indirect cost rate - which may vary by provider - consistently across all agencies as a share of PS and OTPS.
2. In the near-term, the City should align its indirect cost rate with the Federal government using each non-profit’s federal indirect rate, or if no such rate exists, the de minimus rate of 10 percent as prescribed in Federal OMB’s Uniform Guidance. However, it should be noted that advocates from the sector have identified 15 percent as an appropriate indirect rate. This rate would be applied to the entire contract, not just the portion funded by the Federal government, and should be the standard used for all human service contracts regardless of whether they are federally funded. Moving forward, the City can follow the lead of Illinois, which created a Grant Accountability and Transparency Unit to align their contracting with the Federal Uniform Guidance and to assist non-profits in calculating their indirect cost rate.
3. A longer term effort should be undertaken to study the real cost of overhead across different City agencies, nongovernmental organizations, and program types. Once completed, this study should inform how indirect rates are set thereafter.

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Endnotes

- ⁱ Mayor's Office of Contract Services. "Agency Procurement Indicators Report: Fiscal Year 2016."
- ⁱⁱ Ibid
- ⁱⁱⁱ Caps on indirect costs in federal statutes still apply as do excluded funding streams contained in 2 CFR §200.101.
- ^{iv} Office of Management and Budget. "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," December 26, 2013.
- ^v All of the contracts examined were registered after December 26, 2014.
- ^{vi} Every agency except for DOHMH listed their Indirect Cost rate. To capture the DOHMH rate, we divided the "Agency Administration" outlay by PS and OTPS expenses.
- ^{vii} Depending on the agency, indirect costs were alternatively labeled as "Administrative Overhead," "Agency Administration," "Overhead," and "Total Admin & Overhead."