

AUDIT REPORT

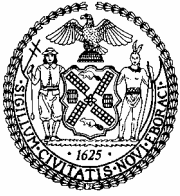


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Contract of Homes for the Homeless, Inc., with The Department of Homeless Services To Operate the Saratoga Family Inn

MJ06-084A

June 22, 2006



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the contract of Homes for the Homeless, Inc. (HFH), with the Department of Homeless Services (DHS) to operate the Saratoga Family Inn. The audit covered Fiscal Years 2004 and 2005.

Under the provisions of the contract, DHS is required to monitor HFH and assure that the contracted services they pay for are actually being rendered and provided to the homeless population they are intended to benefit. We audit contracts such as this to ensure that private concerns under contract with the City comply with the terms of their agreements.

The results of our audit, which are presented in this report, 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.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/ec

Report: MJ06-084A

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

**Audit Report on the Contract of
Homes for the Homeless, Inc., with
The Department of Homeless Services
To Operate the Saratoga Family Inn**

MJ06-084A

AUDIT RESULTS IN BRIEF

This audit determined whether Homes for the Homeless, Inc. (HFH) is in compliance with key financial and programmatic provisions of its contract with the Department of Homeless Services (DHS) to provide temporary housing and related services to homeless families at the Saratoga Family Inn (Saratoga). DHS is responsible for providing emergency shelter and social services to homeless families in New York City. The services are designed to help homeless families gain self-sufficiency and move from temporary to permanent housing. HFH is a non-profit organization that seeks to provide services in a safe and secure environment to the residents of its five facilities in the City. These services include shelter, food, counseling, recreation, and child-care services. DHS contracted with HFH to provide 222 transitional housing units and related services to homeless families at the Saratoga facility in Queens.

DHS refers homeless families (clients) to Saratoga for services. Upon arriving at Saratoga, clients receive an in-depth assessment of their needs. The HFH staff then assists them in achieving independent living skills and finding permanent housing. According to Saratoga's records, in Fiscal Year 2005, 159 of the 661 client families served at Saratoga during the year obtained permanent housing. For Fiscal Year 2004, HFH has received \$7,223,915 from DHS under the Saratoga contract.

Audit Findings and Conclusions

HFH is generally in compliance with the basic programmatic provisions of its contract with DHS to provide shelter, food, and recreation services to its clients in a clean, safe, and secure environment at Saratoga. However, HFH violated other key contract provisions. The following conditions demonstrate HFH's noncompliance with certain contract requirements:

- HFH did not comply with DHS contract provisions relating to payment procedures, leading to \$1,055,339 in excessive charges at Saratoga for Fiscal Year 2004, as follows: HFH charged DHS \$136,879 in legal fees and \$1,605 in real estate taxes that were not directly related to the maintenance or management of Saratoga. In addition, \$916,855 of HFH's charges to DHS was not applicable to services provided

under the contract, but instead related to the provision of services to clients housed in 33 non-contract rooms.

- HFH permitted a potential conflict of interest by hiring a law firm whose partner is a member of the HFH board.
- HFH did not consistently comply with the DHS contract provisions on social services, such as those relating to health-screening documentation, permanent-housing assistance, and employment services.

In addition, DHS did not adequately monitor HFH's use of the non-contract rooms at Saratoga through a written agreement governing the use of those additional rooms.

Audit Recommendations

The audit recommended, among other things, that DHS:

- Recoup \$1,055,339 in payments made to HFH for expenses that are unrelated to the Saratoga contract. These payments include: the \$1,605 in real estate taxes, the \$136,879 in legal fees, and the \$916,855 overpayment amount for the non-contract rooms for Fiscal Year 2004.
- Review HFH financial records and determine whether there were similar overpayments to HFH for the preceding and subsequent years of the contract. DHS should recoup any such overpayments.
- Enhance its examination of reported expenses charged under the HFH contract to ensure that only those expenses that are incurred in providing services required by the contract are paid to the contractor.
- Ensure that HFH provides all necessary social services to Saratoga clients and properly documents the provision of those services in the case files.
- Reevaluate the need for the additional 33 non-contract rooms and, if it determines that the need continues to exist, enter into a contract for these rooms.

The audit also recommended that HFH:

- Ensure that its board members are free of any potential conflicts of interest.
- Bring any potential conflicts of interest to the attention of DHS.

Agency Response

DHS officials agreed with 17 of the audit's 19 recommendations and partially agreed with two recommendations regarding the recoupment of overpayments.

INTRODUCTION

Background

The Department of Homeless Services is responsible for providing emergency shelter and social services to homeless families in New York City. The services are designed to help homeless families gain self-sufficiency and move from temporary to permanent housing. Homes for the Homeless, Inc., is a non-profit organization that seeks to provide a variety of services to the residents of its five facilities throughout the City in a safe and secure environment. These services include shelter, food, counseling, recreation, and child-care services. DHS contracted with HFH to provide transitional housing units and related services to homeless families at the Saratoga Family Inn facility located in Queens.

DHS refers homeless families to Saratoga for services. Upon arriving at Saratoga, clients receive an in-depth assessment of their needs. The HFH staff then assists them in achieving independent living skills and finding permanent housing. According to Saratoga's records, in Fiscal Year 2005, 159 of the 661 client families served at Saratoga during the year obtained permanent housing.

The term of the original contract was from July 1, 1998, to June 30, 2003, and the cost of the contract was \$34,186,110 plus annual cost of living increases. In 2003, the contract was renewed for an additional two-year term to expire on June 30, 2005. For Fiscal Years 2004 and 2005, HFH has received \$7,223,915 and \$7,792,384 respectively from DHS under the Saratoga contract. In 2005, the contract was renewed for another two-year term to expire on June 30, 2007, with an expected cost of \$15,892,614. (The annual contract amount is calculated by multiplying the number of contract rooms by an anticipated 97 percent occupancy rate, by 365 days and by a New York State-approved daily rate.) The funding allocation for the contract at its inception was 50 percent Federal, 25 percent New York State, and 25 percent New York City. In Fiscal Year 2004, the allocation was 42 percent Federal, 28 percent New York State, and 30 percent City.

Saratoga has 255 rooms with a maximum resident capacity of 550 people. DHS's contract with HFH covers 222 (of the 255) rooms. The remaining 33 non-contracted rooms are set aside under a separate arrangement between DHS and HFH for special needs clients. In Fiscal Years 2004 and 2005, DHS agreed to pay HFH \$75 per day for each special needs room occupied. In Fiscal Years 2004 and 2005, the billings for these 33 non-contracted rooms totaled \$1.79 million.

Objective

The objective of this audit was to determine whether HFH is in compliance with key financial and programmatic provisions of its contract with DHS to provide temporary housing and related services to homeless families at Saratoga. These key provisions include: shelter, food, security, client assessment services, permanent housing assistance, employment services, child-care and recreation services, maximum stay and discharge regulations, and terms of payment procedures.

Scope and Methodology

The scope period of the audit was Fiscal Years 2004 and 2005 (July 1, 2003, to June 30, 2005). The scope period for the financial provisions of the contract was Fiscal Year 2004 only, since the Fiscal Year 2005 year-end Close-Out Statement was not available as of March 1, 2006 (when audit fieldwork ended).

To understand the type of services DHS purchased for the 222 contracted rooms, the DHS contract with HFH to operate Saratoga was obtained. We reviewed the contract, which was registered with the Comptroller's Office, and identified requirements to: assess Saratoga's efforts to track clients and their children; work with clients to help them secure public-assistance benefits, employment, and permanent housing; and monitor clients' progress toward achieving their housing, education and employment goals.

We interviewed DHS and HFH officials and conducted walk-throughs to understand the financial and programmatic procedures. To understand the payment procedures and the basis upon which HFH bills DHS, the monthly billing statements for both contracted and non-contracted rooms that HFH submitted to DHS for payment were also reviewed.

To ascertain whether HFH was paid the entire amount as agreed in the contract, bank confirmation of funds transferred from DHS to HFH were obtained, and the reconciliation of the cash advances, adjustments, and payment schedules were examined. We reconciled the monthly installment payments to the agreed-upon contract amount. We also obtained bank confirmation of funds transferred for the 33 non-contracted rooms and ascertained that the funds paid by DHS for the 222 contracted rooms and the 33 non-contracted rooms were transferred into two separate and distinct bank accounts.

We sought to ascertain whether the expenses to operate Saratoga charged to DHS by HFH represented the entire costs to maintain the facility, including all 255 rooms. HFH officials were interviewed on this matter. We also reviewed the Fiscal Year 2004 Close-Out Year End Financial Report, which is a special financial statement used by DHS as a budgetary tool to help monitor HFH's expenditures relative to the contract amount. The final amount that appears on the Close-Out Year End Financial Report is the amount that DHS will pay HFH in compliance with the contract.

To further verify the validity and reliability of the expenses that HFH submitted to DHS, we judgmentally selected five accounts with expenditures totaling \$1,198,987 in Fiscal Year 2004 and examined Saratoga's financial records for those accounts. The amounts listed on the Fiscal Year 2004 Close-Out Year End Financial Report were compared to the expenses on the Income Statement and to the trial balance, general ledger, journal entries, invoices, and canceled checks for these five accounts. We also examined the adjusting entries made to the Income Statement to arrive at the Fiscal Year 2004 Close-Out Year End Financial Report.

To understand the type of services DHS purchased for non-contracted rooms, DHS officials were asked for a description of services at these special needs rooms for which DHS paid \$897,525 in Fiscal Year 2004. The Comptroller's Directive #24, "Agency Purchasing Procedures and Controls" was reviewed and documentation for the 33 non-contracted rooms was requested to determine whether appropriate purchasing, receiving and payment controls existed.

Vacancy rate charts that DHS maintained to track the occupancy rates (combined for contracted and special needs rooms) for Fiscal Year 2005 were obtained and analyzed, as were the separate monthly billing statements for both contract and non-contract rooms. The total number of days in which HFH provided services to all its clients in Fiscal Years 2004 and 2005 were calculated. These data were used to compare the occupancy levels for the 222 contract rooms and the 33 non-contract rooms. We also sought to determine who decides whether a client is placed in one of the non-contract rooms as opposed to the contract rooms.

To gain an understanding of HFH operations, we reviewed the organization's Operational Plan of Saratoga and the HFH rules that describe the obligations of the clients who stay at Saratoga. We also visited and toured the Saratoga facility, observing the staff at work, as well as the cleanliness and security of the facility.

A listing of all clients for whom HFH billed DHS for occupying rooms during Fiscal Year 2005 was obtained. There were 661 clients who resided at Saratoga at some point during that time. To determine whether HFH delivered the services required by its clients to obtain permanent housing, a random sample of 36 of the 661 clients was selected. We reviewed the 36 sampled client case files, which included the housing placement files maintained by HFH Housing Specialists at Saratoga and the service assessment files maintained by Case Managers. We also determined whether officials at Saratoga filed housing applications for those clients; calculated clients' lengths of stay at Saratoga; and determined whether initial service plans and biweekly progress assessments were completed within the required time frames mentioned in the contract and further defined by Saratoga's own rules.

The results of the above tests, while not statistically projectable to the population, provided a reasonable basis to assess HFH's compliance with the client-services provisions of the contract.

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

Discussion of Audit Results

The matters covered in this report were discussed with DHS and HFH officials during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials and was discussed at an exit conference on May 17, 2006. On May 22, 2006, we submitted a draft report to DHS officials with a request for comments. We received a written response from DHS on June 6, 2006. DHS generally agreed with the recommendations made in this audit. However, DHS disagreed that it overpaid for non-contract rooms and therefore stated that it will not seek recoupment.

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

FINDINGS AND RECOMMENDATIONS

HFH is generally in compliance with the basic programmatic provisions of its contract with DHS to provide shelter, food, and recreation services to its clients in a clean, safe, and secure environment at Saratoga. However, HFH violated other key contract provisions. The following conditions demonstrate HFH's noncompliance with certain contract requirements:

- HFH did not comply with the DHS contract provisions relating to payment procedures, leading to \$1,055,339 in excessive charges at Saratoga for Fiscal Year 2004, as follows: HFH charged DHS \$136,879 in legal fees and \$1,605 in real estate taxes that were not directly related to the maintenance or management of Saratoga. In addition, \$916,855 of HFH's charges to DHS was not applicable to services provided under the contract, but instead related to the provision of services for the 33 non-contracted rooms.
- HFH permitted a potential conflict of interest by hiring a law firm whose partner is a member of HFH board.
- HFH did not consistently comply with the DHS contract provisions on social services, such as those relating to health-screening documentation, permanent housing assistance, and employment services.

In addition, DHS did not adequately monitor HFH's use of the non-contract rooms at Saratoga, as there is no written agreement governing the use of those additional rooms.

HFH Is Generally in Compliance with The Basic Programmatic Provisions of Its DHS Contract To Operate Saratoga

Our review of Saratoga's operations revealed that HFH generally complied with its contract provisions regarding site cleanliness, the provision of food to clients, 24-hour security, and recreation services at Saratoga.

We conducted 10 visits to Saratoga between September 2005 and January 2006 and inspected the facility. On each visit the facility was perceived to be clean and well-maintained. The cleaning staff was on duty during each visit and was observed cleaning in many of the areas toured. Two vacant client rooms along with the amenities provided to clients were observed. The rooms contained similar furnishings and features, including beds (bunk beds and single beds), a desk, tables, a closet with space for hanging clothes, a dresser, and a window with curtains. Each room had a bathroom with a toilet, sink, and shower. The facilities in these vacant rooms were found to be clean and well kept.

The cafeteria, where three meals are served daily at designated eating times, was visited. The cafeteria contains a number of tables with benches, and clients can either eat there or in their rooms. The cafeteria is staffed by a security guard who is responsible for assuring that residents

check in before eating. We watched the food being served for lunch; the serving area was clean, and the food preparation area appeared to be sanitary.

The security measures provided at the facility were observed, resulting in the conclusion that the facility is generally well-secured. There is a security booth in the entrance driveway. The guard at this booth greets visitors to the facility and controls admittance. There is another security booth inside the facility, near the entrance. That booth contains monitors that display closed-circuit views, provided via security cameras, of the different public areas of the facility. The cameras were on and in working order. Each of these booths is staffed by a security guard 24 hours per day. There is also a security desk at the front of the facility that is staffed 24 hours a day. The guard on duty maintains a sheet that all residents and visitors must sign as they enter and leave the facility.

Furthermore, recreation services are provided to clients at Saratoga. There is a Recreation Center that contains several games, a television, and an indoor basketball court. There is also a full-length outdoor basketball court on the grounds. In addition, Saratoga has a library that is available to the residents.

DHS monitors the provision of client services at Saratoga. At least twice per year, DHS Program Analysts prepare a report, the Shelter Monitoring Instrument (SMI), which verifies the extent of the services provided at Saratoga. In order to complete the SMI, the Program Analyst visits the site, reviews client files, and evaluates the provision of client services. DHS also monitors the rate at which Saratoga moves clients into permanent housing.

DHS Overpaid HFH \$1,055,339 in Fiscal Year 2004 For Services Unrelated to the Saratoga Contract

HFH charged DHS for expenses that were unrelated to the contract, and therefore it did not comply with the financial provisions of its contract with DHS to operate Saratoga. DHS in turn failed to monitor the validity of the expenses it paid for under the Saratoga contract. As a result, DHS overpaid HFH \$1,055,339 for Fiscal Year 2004 by accepting expenses unrelated to the contract, including certain real estate taxes, legal fees, and expenses relating to the provision of services to clients in rooms not covered by the contract.

DHS Paid for Real Estate Taxes Unrelated to the Contract

According to property records obtained from the Department of Finance (DOF), HFH owns the buildings used by Saratoga. Because HFH is a non-profit organization and HFH uses these properties for its philanthropic mission, the properties are exempt from City real estate taxes. However, HFH recently acquired property that is adjacent to Saratoga and paid real estate taxes of \$1,605 on this property in Fiscal Year 2004. HFH inappropriately charged DHS for these real estate taxes under the Saratoga contract, and DHS inappropriately paid.

DHS Paid for Legal Services Unrelated to the Contract

In Fiscal Year 2004, HFH inappropriately charged DHS \$136,879 under the Saratoga contract for legal fees associated with a planned expansion of the Saratoga facility.

HFH intended to use its recently-acquired property adjacent to Saratoga, plus part of the land that currently contains the Saratoga facility, to build a new shelter facility that would house an additional 91 homeless families. In order to build the new facility on the property, HFH needed a zoning variance. Accordingly, HFH applied to the New York City Board of Standards and Appeals (BSA) for a zoning variance.

BSA rejected the application for the variance in February 2004. HFH in turn sued BSA for denying the application. This case was still ongoing as of December 2005.¹ In Fiscal Year 2004, HFH incurred legal fees totaling \$162,318 related to the case involving the BSA application. The law firm that represented HFH in this matter claims that \$25,439 of these legal fees pertained to efforts on the part of HFH to legalize the zoning for the existing Saratoga facility. Therefore, the remaining \$136,879 in legal fees incurred by HFH was related to its expansion efforts, and HFH charged DHS for these fees under the Saratoga contract. In essence, DHS, a City agency, funded the legal expenses of HFH's lawsuit against BSA, another City agency.

According to §6.4 of the contract between DHS and HFH for operating Saratoga, "No funds received from the Department under this Agreement shall be spent for any of the following: A.) any expenses not reasonably necessary and actually incurred in the performance of the service program under the terms of this Agreement."

The terms of the contract do not include reimbursement for HFH efforts to expand the facility to house additional homeless families. Therefore, the expenses related to the expansion effort, which include the aforementioned real estate taxes and legal fees, were not appropriate under the terms of the contract and thus should not have been paid by DHS.

DHS Paid for Expenses Incurred for Rooms Not Covered by the Contract

In Fiscal Year 2004, DHS paid HFH \$7,223,915 for the provision of services under the Saratoga contract. However, based on a review of HFH's financial records, this amount included expenses incurred in providing services unrelated to the contract. Specifically, DHS paid HFH for services related to the 33 rooms not covered by the contract. As a result, by not distinguishing between the expenses related to the 222 contract rooms and those related to the 33 non-contract rooms, DHS overpaid HFH by \$916,855.

At the beginning of each fiscal year, DHS and HFH reach an agreement on the contract budget for the year for personal services (PS), other than personal services (OTPS) costs and overhead for Saratoga. DHS pays HFH in monthly installments, based on the total number of client-care days² provided during a given month. Following the end of a year, HFH submits a Close-Out Year End Financial Report to DHS. In this report, HFH lists its expenses for Saratoga during the preceding year. DHS reviews the report and should only approve the expenses that are related to the management of the 222 contract rooms of the facility. For Fiscal Year 2004, HFH's year-end report lists total expenses of \$7,223,915, which was \$128 less than the contract amount.

¹ Supreme Court of New York, Appellate Division, First Department, 2005 NY Slip Op 10206; 2005 N.Y. App. Div. LEXIS 14869.

² For example, if Saratoga served 200 clients in one day, it would have provided 200 care days on that day.

To determine whether these expenditures claimed by HFH were valid (i.e., related to the provision of services as required by the contract) and reliable (i.e., that the above-mentioned amounts are reasonably free from error and bias and are faithfully represented in the Close-Out Year End Financial Report), we judgmentally selected five accounts with expenditures totaling \$1,198,987 in Fiscal Year 2004 and examined Saratoga's financial records for those accounts. Table I, below, lists the accounts and the corresponding expenditures as they appeared in the year-end report.

Table I
Expenditures on Selected Saratoga Accounts
In Fiscal Year 2004

Account	Actual Expenditure
Counselor	\$316,634
Electricity	\$258,538
Oil/Gas	\$108,497
Insurance	\$255,253
Accounting & Legal	\$260,065
Total	\$1,198,987

Our review revealed that the amounts reported in the year-end report reconciled with HFH's financial records, and that those records were adequately supported by documentation. However, the year-end report included expenses that are not related to the provision of services required by the contract, such as \$136,879 of the Accounting and Legal expenses that were related to HFH's efforts to expand the Saratoga facility. Furthermore, HFH did not apportion the contract's portion of the total expenses incurred in operating the Saratoga facility.

Based on the financial records, as well as the statements of HFH officials, the expenses recorded in the year-end report and charged under the contract represented the total costs to operate the entire Saratoga facility. However, since Saratoga has a total of 255 rooms and the contract covers 222, or 87.06 percent, of those rooms, only 87.06 percent of the expenses incurred in operating the facility should be paid by DHS under the contract. The remaining 12.94 percent represents the additional 33 rooms not covered by the contract and are, therefore, disallowed. Table II shows our calculation of the DHS overpayment to HFH.

Table II
Calculation of the Amounts Overpaid
Under the Contract in Fiscal Year 2004

Total expenses reported by HFH	\$7,223,915
Less:	
Disallowed legal costs	\$136,879
Disallowed real estate taxes	\$1,605
Adjusted total expenses	\$7,085,431
Less:	
Multiply adjusted total expenses by % of total rooms covered under the contract (87.06%)	\$6,168,576
Amount of adjusted total expenses not covered under the contract	\$916,855
Add:	
Disallowed legal costs	\$136,879
Disallowed real estate taxes	\$1,605
Total amount disallowed	\$1,055,339

It should be noted that the \$916,855 HFH was inappropriately paid in connection with the non-contracted rooms is in addition to \$897,525 it was paid under a separate agreement for the use of these rooms. Several DHS officials told us that beyond ensuring that payments to HFH for Saratoga did not exceed the contracted amount, DHS did not confirm the validity and reliability of the reported expenses. Instead, DHS relied on outside Certified Public Accountants to audit HFH's books. Such audits are performed approximately once every three years. DHS's failure to verify the validity and reliability of expenses claimed under the contract contributed to DHS overpaying HFH more than \$1 million in Fiscal Year 2004 for services rendered under the Saratoga contract.

Recommendations

DHS should:

1. Recoup \$1,055,339 in payments made to HFH for expenses that are unrelated to the Saratoga contract. These payments include: the \$1,605 in real estate taxes, the \$136,879 in legal fees, and the \$916,855 overpayment amount for the non-contract rooms for Fiscal Year 2004.

DHS Response: "DHS agrees that \$1,605 in real estate taxes and \$136,879 in legal fees are unrelated to the contract and has informed HFH that it will recoup the funds. HFH has already sent DHS a check for \$138,484, to satisfy the real estate taxes and legal fees mistakenly allocated to Saratoga's contract.

"DHS disagrees with the finding that there was a \$916,855 overpayment for the non-contracted rooms for Fiscal Year 2004. DHS and HFH entered into a good faith agreement, in which HFH would provide rooms to accommodate DHS's urgent need for capacity for families with children. In calendar year 1999, the average daily census in the

family system increased by 9% from the previous year, the largest one year increase since 1993. HFH was able to provide DHS with 20 non-contracted rooms, to meet the capacity crisis much more quickly than would be possible under the contracting process. As capacity growth increased in 2000 and 2001, defying recent trends of minimal growth and even decreases, HFH helped DHS by providing the remainder of the rooms. Since these units were originally designated to address a capacity crisis, they were neither added to the contract nor was Saratoga required to provide Tier II services, although over time Saratoga began to offer the clients in those rooms the same services as those in the contracted Tier II rooms. The rate to which both parties agreed was a rate similar to that offered to other non-Tier II facilities and less than that of the Saratoga contracted rooms. Since the agreement was negotiated in good faith and Saratoga not only upheld its responsibilities by providing the capacity but exceeded expectations by offering Part 900 services, DHS has received the service for which it paid.”

Auditor Comment: DHS disagreed with the part of this recommendation that relates to the overpayment for non-contract rooms. The audit found that expenses relating to the provision of services to clients in the 33 additional non-contract rooms were charged to DHS as contract expenses, and accordingly recommended that DHS recoup the portion of the funds paid under the contract that can be attributed to the additional rooms.

We recognize that HFH provided additional rooms at less than the contracted rate to meet DHS’ capacity need, and we also concur that HFH should be reimbursed for those rooms. However, DHS should not have paid HFH for housing clients in the non-contract rooms while simultaneously allowing the expenses for those rooms to also be absorbed under the existing contract.

Furthermore, the DHS response states that a “capacity crisis” in calendar year 1999 created an urgent need for capacity for homeless families that compelled DHS to enter into this agreement with HFH for additional rooms. Nevertheless, an emergency condition cannot exist indefinitely. Since the deal was reached in 1999, DHS has twice renewed the contract for Saratoga without revisiting the separate arrangement to evaluate its merit. In the meanwhile, the agency managed Saratoga under the emergency conditions to the fiscal detriment of the City.

2. Review HFH’s financial records and determine whether there were similar overpayments to HFH for the preceding and subsequent years of the contract. DHS should recoup any such overpayments.

DHS Response: “DHS will review the close-outs of other years in the contract to ensure that there are not overpayments for legal fees or real estate taxes in those years. However, DHS disagrees that there is an overpayment, due to the agency’s use of non-contracted rooms during the contract term....”

Auditor Comment: See our comment on DHS’s response to recommendation 1.

3. Enhance its examination of reported expenses charged under the HFH contract to ensure that only those expenses that are incurred in providing services required by the contract are paid to the contractor.

DHS Response: “DHS’ Audit Services has initiated an expenditure review process for all human service providers, to verify that the invoices sent to DHS for payment are accurately supported by documentation. We expect that this review will help ensure the applicability of billed expenses.”

**Partner in Law Firm Used in Zoning
Variance Lawsuit Is On the HFH
Board of Directors**

HFH has a Board of Directors, which is responsible for making many decisions that affect the operation of the entire organization. One member of the Board of Directors is also a partner in the law firm, Fischbein, Badillo, Wagner & Harding, which has been employed by HFH to handle the zoning variance case discussed previously. Although the board member apparently does not work for the law firm on any legal matters involving HFH, as a partner in the firm, the HFH board member presumably receives a share of the law firm’s net income. Since the HFH Board of Directors has oversight responsibility relative to HFH’s procurement of legal services, it is a conflict of interest for a partner in a law firm hired by HFH to also be a member of the HFH board.

The contract expressly prohibits conflicts of interest. It states: “The Contractor [HFH] represents and warrants that neither it nor any of its directors. . . . has any interest nor shall they acquire any interest, directly or indirectly, which would or may conflict in any manner or degree with the performance or rendering of the services herein provided.”

According to DHS officials, HFH neither notified them nor requested a waiver to hire the board member’s law firm. Furthermore, according to HFH officials, the minutes of the Board of Directors meeting at which the hiring of the law firm was discussed do not indicate that the potential conflict of interest issue was discussed.

While we do not have evidence that the board member used board membership in an inappropriate manner, the board member’s independence could be impaired through his partnership in a law firm hired by HFH. At the very least, this arrangement presents the appearance of a potential conflict of interest.

Recommendations

HFH should:

4. Ensure that its board members are free of any potential conflicts of interest.

DHS Response: “HFH was not aware of any conflict of interest in this case. HFH employed one of the top two land-use attorneys in the city to handle significant land-use issue, completely unrelated to its Board member. In the future, HFH will avoid any appearance of a conflict of interest.”

5. Bring any potential conflicts of interest to the attention of DHS.

DHS Response: “In the future, HFH will discuss with DHS any potential conflicts of interest.”

HFH Did Not Consistently Comply with Contract Provisions Relating to Social Services at Saratoga

A randomly selected sample of 36 client files was reviewed to determine HFH compliance with the social-service provisions of its contract with DHS to operate Saratoga. We identified 18 requirements, based on the terms of the contract and/or the written rules of HFH, to determine whether the Saratoga staff: kept track of the clients and their children; worked with the clients to help them secure public-assistance benefits, employment, and permanent housing; and monitored the clients’ progress toward achieving their housing, education, and employment goals.

Based on a review of the documentation in the client files, we determined that HFH did not consistently comply with certain social-service provisions of its contract with DHS to operate Saratoga. For the 18 requirements identified, Saratoga:

- fully complied with only 2 of the 18 requirements (relating to client benefits and client applications for the Housing Stability Plus program),
- achieved better than 82 percent compliance for seven requirements (documentation of initial intake, client identification, client’s receipt of facility rules, client’s acceptance of facility rules, independent living plan (ILP), school attendance, and meetings with housing specialists),
- achieved between 51 and 82 percent compliance for three requirements (biweekly reviews, ILP implementation, child care, and employment services),
- achieved between 20 and 50 percent compliance for three requirements (health screening, apartment rejections, and employment services), and
- did not comply with three requirements (client search-for-apartments, client sanctions, and maximum lengths of stay).

Our determination of compliance was based on the documentation found in the case files. A client’s case file presents a record of the services that were provided to the client at Saratoga. The fact that certain documentation pertaining to crucial aspects of the social service program at Saratoga was missing from the sampled case files raises question about whether services were provided according to the terms of the contract. We found significant deficiencies in the following social service areas.

Health Screening

Health-screening documentation on each member of a client’s family was not present in 20 of the 36 client files in our sample. As a result, we have no assurance that clients were screened as required.

According to the HFH contract with DHS, each client must undergo preliminary health screening upon arrival at Saratoga so as to make the staff aware of any health issues that the client may have in order to ensure that the issues are addressed and the new client does not pose a health hazard to other individuals living and working at the facility. DHS officials informed us that health screening is provided by DHS; Saratoga is required to maintain documentation of those screenings in the client case files.

In 20 of the 36 client folders reviewed, there were either no health screening documents or documents for only some members of the client's family. In 10 of these 20 files, there was no health screening documentation for any family member. In the 10 other instances, the files contained screening forms or health records for some family members but not for others.

Biweekly Meetings

The case files contained no evidence that Saratoga conducted biweekly client assessment interviews within the requisite timeframe in 9 of the 23 cases in our sample for which such services were required. As such, we have no assurance that clients' progress is being monitored as required.

An HFH Case Manager at Saratoga is required to hold a meeting with each client once every two weeks. The purpose of this biweekly meeting is to monitor the client's progress toward obtaining public-assistance benefits, permanent housing, child care, and educational and employment services.

For 13 of the 36 clients, this requirement was not applicable, generally due to the client's short length of stay. For 9 of the remaining 23 clients, biweekly meetings were not consistently held on time. In each of these cases, a client assessment meeting was held more than 21 days after the previous meeting.

ILP Implementation

Shortly after arrival at Saratoga, HFH is required to create an ILP for each of its clients, HFH must also monitor and encourage client progress in the course of implementing the ILP.

In terms of ILP implementation, Saratoga did not record client progress toward obtaining permanent housing, education, employment, and child-care services for 5 of the 23 clients in the sample for whom the tracking of progress was necessary.

According to the contract, the service plan for each client must be assessed and revised on a biweekly basis to assure progress toward the goal of independent living. We sought to determine whether HFH Case Managers were keeping track of client progress and providing referrals, advice, and other services to help assure client progress. In this regard, the Case Managers should record in the biweekly reports and progress notes in the clients' files the ways in which they and the clients work together to fulfill the objectives on the clients' service plans.

For 13 of the 36 clients, this requirement was not applicable because of the clients' short lengths of stay at Saratoga or because the clients were declared by DHS to be ineligible to receive services. For 5 of the remaining 23 clients, our review of the case files indicated that the

Case Managers did not report progress toward the clients' goals, did not follow up on recommendations offered to initiate such progress, and did not develop alternative plans in an effort to encourage compliance.

Child Care

Saratoga did not document the provision of child-care services for five of the 19 clients for whom child-care services appeared to be necessary. As a result, we have no assurance that the needed services were provided.

The contract stipulates that child care must be provided either at the facility or elsewhere when necessary. We determined that child care was necessary if the children of a client were under school age (i.e., below six years of age) or if a client could not be with the children at any point during the day. Documentation in the file should reflect that the children received child-care, and where and by whom such services were provided.

For 17 of 36 clients in our sample, child-care services were not necessary. In those cases, the client's children attended school during the day, the parent was available to provide care for the children, or the client was never declared eligible to receive services by DHS. For three of the remaining 19 clients, the provision of child-care services was not recorded in the clients' folders even though the client files explicitly refer to a need for such services. The provision of child-care services was also not recorded for two other clients' files even though the client appeared to need such services due to the age of the clients' children.

On a related matter, in May 2005, the mother of one child who was enrolled in the on-site child-care program at Saratoga removed the child from the program claiming that she observed the boy being physically abused there. The mother reported the incident to the Administration for Children's Services (ACS) and subsequently to her Case Manager at Saratoga. The child was treated at a local clinic for injuries the client said resulted from the alleged abuse. The client's Case Manager reported that she would follow up on the incident, but no follow-up is recorded in the file.

We reported the alleged child abuse to DHS officials. They took the allegation very seriously and subsequently investigated the matter with Saratoga administrators. The inquiry revealed that ACS had conducted an investigation of the case soon after the incident. ACS concluded that the allegation was unfounded. This information was kept out of the client's file and was placed in a sealed confidential file. The contract requires HFH to document and handle any incidents involving resident endangerment or injury. There is no evidence that HFH itself investigated the incident. Furthermore, there was no documentation in the client file indicating any follow-up action.

Clients' Search for Apartments

HFH did not enforce its own rules requiring clients to search for and view at least two apartments per week and to document the reason for rejecting any apartment. No effort to enforce the apartment-viewing rule was noted in the files for any of the 22 clients in our sample for whom this standard was applicable. There was also no evidence of efforts to enforce the

apartment-rejection rule in the files for any of the four clients in the sample for whom this standard was applicable.

The contract requires that clients of Saratoga seek permanent housing, and HFH is also required to assist clients in obtaining housing. This concept is further defined by the HFH rules for the facility and the Client Acknowledgement of Responsibility Form (CARF), which is signed by the client upon admission to the facility and commits the client to view two apartments per week.

However, our sample review of client files indicates that Saratoga does not require that clients view two apartments per week. For 14 of the 36 files reviewed, this requirement was not applicable because of these clients' short lengths of stay at the facility.³ There was no evidence in any of the remaining 22 client files that suggests that the client viewed two apartments per week. We could find no documentation in these 22 client files substantiating that the clients viewed two apartments per week. In 11 of the 22 client files, there was evidence that the client visited at least one specific apartment in search of housing. In the other 11 cases, the files showed no indication of the client viewing any specific apartments during the entire length of their stay at Saratoga.

In addition, clients were rejecting apartments they viewed without completing the proper documentation to provide the reason for declining the apartment. Clients are generally expected to accept the permanent-housing opportunities made available to them. If a client rejects an apartment, he or she must complete a form citing a reason for rejecting the apartment. In the four cases in the sample in which the client saw an apartment and rejected it, no reason for rejecting the apartment was provided in the client file.

Client Sanctions

Saratoga did not initiate sanctions against clients who violated facility rules relating to obtaining permanent housing or document why sanctions were not initiated. In all five cases in our sample in which this standard was applicable, Saratoga did not initiate sanctions or explain in the client files why sanctions were inappropriate.

Each client is assigned to a Housing Specialist who is charged with helping the client obtain permanent housing. Each client must meet regularly with the Housing Specialist and pursue the permanent housing opportunities made available to them. The terms of the contract state that HFH may involuntarily discharge a client from Saratoga if the client "unreasonably fails to actively seek or follow up on referrals to (permanent) housing." The basis for initiating sanctions against clients is further defined in Article 31 of the Saratoga Family Inn Rules, which states that if a client misses "three appointments with the Housing Specialist without prior notice, [the client] will be subject to discharge from the Inn." We attempted to ascertain whether Saratoga is complying with its contract by enforcing Article 31 and initiating sanctions against noncompliant clients.

³ As mandated by New York State policy, clients are not eligible to receive housing assistance benefits until they have resided in a shelter for 90 days. As such, Saratoga clients are not required to search for apartments until they have stayed there for 90 days.

In 31 of the 36 cases sampled, Article 31 did not apply because the client either met those obligations or was not in the facility long enough for the rules to apply. However, in each of the remaining five cases, the client missed three or more scheduled meetings with a Housing Specialist, but Saratoga took no disciplinary action.

Subsequent to our audit fieldwork, DHS and HFH provided us with an explanation of why each of these five clients missed more than three scheduled meetings with the Housing Specialists. The explanations included mental disabilities, domestic abuse problems, and employment scheduling conflicts that prevented the clients from being able to meet with the Housing Specialists. While these justifications seem reasonable, the reasons for not initiating client sanctions in these cases were not provided in the client files.

Maximum Length of Stay

HFH does not comply with the maximum length of stay of six months stipulated in the contract. Seventeen of the 36 clients in our sample stayed at Saratoga for longer than six months, and Saratoga did not request or receive permission from DHS to extend these clients' lengths of stay, as required by contract.

The contract states that the maximum length of stay for clients is six months. If a client must stay longer than six months, Saratoga administrators are contractually obligated to make a written request to DHS for an extended stay, and DHS must approve or disapprove the request. We sought to ascertain whether Saratoga is abiding by this portion of the contract.

Of the 36 clients in the sample, 17 stayed at Saratoga for six months or more. In all 17 of these instances, HFH did not comply with the contract requirement, as there were no instances in which Saratoga made a written request to DHS on behalf of any client for extended stay.

DHS officials told us that they do not enforce that part of the contract and do not require written permission for clients to stay at the facility for more than six months. Instead, as a means of enforcing maximum-stay requirements at its shelters, DHS has recently implemented the "9 to 5" program. This initiative, started in March 2005, seeks to specifically target clients who have resided in the facility for the longest periods of time. DHS specialists speak with the long-term clients as well as with their Case Managers and Housing Specialists. Together they develop a plan to get the client into permanent housing as soon as possible. DHS officials told us that any client who does not follow this plan is subject to discharge from the shelter facility. DHS will find an apartment, which the client is obligated to accept or face becoming ineligible to receive DHS assistance in the future. The new program was first introduced at Saratoga in January 2006. It involved the 25 clients who had stayed at the facility the longest, according to Saratoga personnel.

The "9 to 5" program is a good start, but a total of 240 clients served at Saratoga in Fiscal Year 2005 stayed beyond six months. By dealing only with the residents who have been at the facility the longest, the program still permits many clients to stay well beyond the six-month maximum.

In addition, as discussed earlier, there is limited evidence that Saratoga actively requires that clients search for apartments or that it takes action against those who violate facility rules in

regard to obtaining housing. If HFH were to more strictly enforce its housing policies at Saratoga, it could enhance its efforts to expedite clients' transition to permanent housing.

Assistance in Obtaining Employment Services

Saratoga did not provide assistance in obtaining employment assessment, training, and placement services to 8 of the 16 clients in our sample for whom such services were necessary.

According to Saratoga, career assessment, job training, and job placement are provided to Saratoga residents through the Train-and-Gain (TAG) program. Saratoga informed us that TAG operates out of several different rooms in the facility. Its services include a six-week internship that allows clients to work at least 20 hours per week with an on-site division such as Security or Facilities Maintenance. TAG also provides workshops on such matters as résumé preparation, job interviews, and business etiquette. In addition, Saratoga told us that there is a Career Education Center on site in which certified teachers prepare clients for General Educational Development (GED) examinations.

The contract obligates Saratoga to provide clients with assistance in securing employment assessment, training, and placement services. Furthermore, the provision of employment-related services is defined in the HFH Mission Statement as a critical aspect of the organization's operations. Therefore, the case files were reviewed to determine whether clients at Saratoga were assisted in obtaining employment training and job placement services when such services were needed.

In 20 of 36 client files we reviewed, the requirement was inapplicable. In eight of the remaining 16 cases, the case files indicated that the clients attended such programs as GED courses, on-site internships, or TAG.

However, for the other eight clients, the Case Managers indicated that the clients needed employment services, but Saratoga did not adequately provide assistance in obtaining those services. In several instances the Case Manager advised the client to attend the TAG program, but no evidence in the files suggests that those clients received services from TAG. Those files show that Saratoga's Case Managers did not consistently follow through to assure that their clients were receiving necessary employment services.

Employment services were only partially provided to certain clients. In those cases, one member of the family received employment services while another member, who was also in need of those services, did not get them. One particular case exemplifies this situation. The wife was in need of GED classes, while the husband needed job training and placement. The husband was given an internship with the Saratoga on-site security unit, but after the internship ended, there was no record of further help with job placement or follow-up through the TAG program. The file further indicates that the wife never received the GED courses she needed.

There were also two cases of the eight for which assistance in obtaining employment services was not fully provided in that the Case Manager repeatedly referred the client to the TAG program or to GED classes, but the client simply did not comply. In both cases, the Case Manager made referrals but did not revise the service plan in response to this noncompliance.

Recommendations

DHS should:

6. Ensure that it conducts preliminary health screenings for all clients arriving at Saratoga and that documentation of those screenings is maintained by HFH in the clients' folders.

DHS Response: "Preliminary screenings are conducted at PATH for every client and delivered to providers upon clients' arrival. The shelter is required to get the copy of the screenings from every new arrival; in case the client doesn't have it the shelter must contact their DHS Program Analyst to secure another copy from PATH. DHS will continue to monitor adherence to this process through Program Analyst visits and monitoring tools."

7. Ensure that Saratoga holds biweekly meetings with clients throughout their stay and that documentation of those meetings is maintained in the case files.

DHS Response: "In January 2006, DHS initiated a special Intensive Case Management initiative ("9 to 5 Program") at this site to assist HFH in moving clients to permanency. DHS and HFH staff review cases during DHS' weekly visits to the facility to ensure that bi-weekly meetings are conducted and documented in individual case files."

8. Ensure that HFH assigns a Case Manager and develops an ILP for each client within 10 days of the eligibility determination.
9. Ensure that HFH Case Managers actively track client progress and regularly revise each client's service plan as necessary.

DHS Response: DHS consolidated its response to recommendations 8 and 9 as follows: "HFH now has a full complement of staff, so that each client is assigned a Case Manager. DHS monitors through its Intensive Case Management initiative ("9 to 5 Program") to ensure that Independent Living Plans are completed within 10 days of the eligibility determination. Clients' progress is now better monitored through case reassignment, made possible by the change in staffing levels. HFH also added a supervisor level person to its case management staff to provide additional oversight."

10. Ensure that HFH provides child-care to the children of all of its clients who need this service and that such provision is documented in the clients' folders.

DHS Response: "DHS continues to monitor individual assessment of child-care needs in the facility and identify additional space for child-care services if needed, through our Intensive Case Management initiative ("9 to 5 Program"). DHS and HFH staff will continue to review case records, and in particular the Independent Living Plans, in addressing any gaps in services. We will also advise the provider to make appropriate referrals to neighborhood child-care centers to accommodate any unmet needs."

11. Ensure that HFH requires and assists its clients to view apartments regularly according to the written facility rules and that such assistance is documented in the clients' folders.

12. Ensure that HFH requires its clients to document their reasons for not accepting a housing opportunity.

DHS Response: DHS consolidated its response to recommendations 11 and 12 as follows: "DHS has required that HFH develop a list of brokers in the neighborhood and that they take the clients to view apartments a minimum of two times a week. HFH Case Managers were also instructed to document all apartment acceptances and rejections in the case records during the DHS weekly case reviews. HFH must also ensure that clients complete the apartment rejection and acceptance forms. During regularly scheduled case record reviews, DHS Program Analysts will ensure that files contain all required documents."

13. Track all clients who stay at the facility for longer than six months and ensure that Saratoga has fulfilled its contractual obligation to require and assist those clients in obtaining permanent housing.

14. Enhance its efforts to expedite the transition of long-term clients to permanent housing.

DHS Response: DHS consolidated its response to recommendations 13 and 14 as follows: "DHS is tracking all long term stayers and has implemented an Intensive Case Management initiative ("9 to 5 Program") to assist and provide technical assistance to the provider in moving long-term staying families to permanent housing. Cases are reviewed weekly by DHS/HFH staff and corrective action plans are implemented to address any presenting issues that might prevent clients from moving to permanency."

15. Ensure that HFH provides assistance to its clients in obtaining employment services.

DHS Response: "HFH reported that they refer all clients for employment services on-site to the Train And Gain (TAG) program, and they make referrals off site when necessary. DHS advised HFH to document all efforts in the family services case notes, in addition to their TAG case notes. HFH has taken steps to provide additional training to its case management staff and ensure better oversight through regularly scheduled supervisory reviews."

HFH should:

16. Follow up on any allegations of abuse in the Saratoga child-care program and document any actions taken in the client's case folder.

DHS Response: "It is HFH's practice to follow-up on all allegations of abuse, and this practice was indeed followed in the case cited in this audit report. In this particular case, the actions taken and all follow-up were recorded in the sealed confidential file in the

daycare files. In the future, effective immediately, documentation of such incidents will also be recorded in the case folders, rather than exclusively in separate daycare files.”

17. Document and make alternative arrangements for clients who are unable to comply with their obligations as defined by the contract and facility rules.

DHS Response: “In the specific cases cited in this audit, there were mitigating circumstances as to why the sanction and/or discharge process was not pursued, ranging from mental illness, domestic violence, and employment scheduling conflicts; due to an oversight, those circumstances were not fully documented in the case files. HFH has already begun staff training for caseworkers on making and properly documenting alternative arrangements, however limited, for clients who are unable to comply with their obligations as defined by the contract and facility rules.”

18. Initiate sanctions against Saratoga clients who consistently violate its rules relating to obtaining permanent housing or document in the client files why sanctions would be inappropriate.

DHS Response: “...HFH has already begun working directly with DHS to ensure that case records are up to standard in order to sanction the non-compliant clients. In addition, a June training is scheduled for case managers and supervisors to receive additional training on maintaining thorough and comprehensive client records. In particular, that training will include how to properly document the situations surrounding potential sanctioned cases, particularly the reasons as to why a sanction may not be appropriate.”

Auditor Comment: In its responses to recommendations 6 through 18, DHS agreed that improved documentation in client case files is necessary. Comprehensive record keeping will enhance the services provided to Saratoga clients by enabling the Case Managers and Supervisors to more effectively monitor progress of the clients. In addition, DHS indicates that HFH will provide additional training to Saratoga Case Managers and Supervisors while increasing supervision of the Case Managers. This will also help improve the services by making Case Managers more equipped to handle difficult or complex cases and by enabling supervisory assistance to occur in individual cases when necessary. These measures, if implemented, will ultimately help the Saratoga clients achieve self-sufficiency and secure permanent housing.

Other Issues – Limited Oversight of Non-Contract Rooms

DHS does not adequately monitor HFH’s use of the non-contract rooms at Saratoga. There is no written agreement regarding the use of these rooms, nor is there any periodic re-assessment of DHS’s need for these rooms.

Information was requested regarding the terms of the agreement between HFH and DHS for use of the non-contract rooms. We requested information on the services to be provided to

clients in those rooms, whether the clients placed in those rooms had special needs⁴, who determines the assignment of clients to those rooms, and what is included in the \$75 daily rate. There is no written agreement governing the use of the non-contract rooms, and HFH and DHS officials were unable to provide relevant documentation in response to this information request.

Based on our review of the separate monthly billing statements for both contract and non-contract rooms and the resulting calculation of the total number of days in which HFH provided services to all of its clients in Fiscal Years 2004 and 2005, we concluded that Saratoga generally maintained a higher client occupancy rate in the non-contract rooms than in the contract rooms. In Fiscal Year 2005, Saratoga maintained an average daily occupancy rate of approximately 99.32 percent in the 33 non-contract rooms and 91.69 percent in the 222 rooms covered under the contract, while in Fiscal Year 2004 the average daily occupancy rates were 99.42 percent and 94.85 percent respectively.

DHS administers the contract for the other 222 rooms in such a way that HFH is paid based on expenses incurred rather than actual care days provided. However, the payments HFH receives for use of the 33 non-contract rooms are directly based on the actual number of care days provided to clients in those rooms. In Fiscal Year 2004, HFH billed DHS \$898,125, which represents the 11,975 actual care days times \$75 for the use of the non-contract rooms, out of which \$897,525 was approved and paid by DHS.

The fact that HFH is paid for the contract rooms based on expenses incurred regardless of actual occupancy, while it is paid for non-contract rooms according to actual occupancy, provides HFH with a financial incentive to house clients in non-contract rather than contract rooms.

Furthermore, the method by which DHS procured the use of these rooms is a violation of Comptroller's Directive #24, Agency Purchasing Procedures and Controls. This directive describes the process that City agencies should follow when they spend City funds. §3.1 of the directive states: "Agencies must anticipate future needs and ensure adequate time to accommodate procurement processes that are often complex and require multiple steps and approvals to complete. Determinations regarding the extent of competition, estimated cost, scope of work, and contract delivery timeframes must all be made and then reflected in the relevant purchasing documents. Agencies must record the resultant agreement and associated payments in FMS using the appropriate documents."

Purchase documents, such as contracts, provide an agency with a permanent record to document the purchase of goods or services and facilitate the review and approval process by agency personnel before payment. By not entering into a contract with HFH for the additional rooms, DHS has bypassed these controls.

⁴ DHS and HFH officials did not provide a definition of "special needs." Based on our review, there was no difference in the level of service provided to clients residing in contracted rooms and those residing in non-contracted rooms.

An audit⁵ issued by the Office of the New York City Comptroller on October 1, 2003, concluded that DHS did not procure the services of certain shelter providers in accordance with the City Charter and PPB rules. The audit recommended that DHS comply with the City Charter and PPB rules by entering into formal written agreements with all shelter operators and registering those contracts with the Comptroller's Office. In agreeing with the recommendation, DHS stated: "We should move toward establishing contracts with the majority of un-contracted facilities with which the City currently has relationships."⁶

Operating without a contract to govern all aspects of the relationship between DHS and a homeless shelter provider can impair financial accountability, as this audit found in the case of the non-contracted rooms at Saratoga. A contract with HFH would force DHS to periodically review the need for the currently non-contracted rooms. A contract that covers the currently non-contracted rooms would also improve DHS program-monitoring authority by setting standards for the provision of client services in those rooms.

Recommendation

19. DHS should reevaluate the need for an additional 33 rooms and, if it determines that the need continues to exist, DHS should enter into a contract for these rooms in accordance with the City Charter, PPB Rules and Comptroller's Directive #24.

DHS Response: "DHS has already initiated the process with HFH to bring the 33 non-contracted rooms under the contract. These discussions address the continued need for the additional rooms and appropriate compensation for their usage."

⁵ *Audit Report on Department of Homeless Services Controls over Payments to Hotel and Scatter Site Housing Operators July 1, 2001–June 30, 2002* (FM03-123A, issued October 1, 2003).

⁶ FM03-123A, p. 7.

Robert V. Hess
Commissioner

Steve Pock
Deputy Commissioner
Fiscal and Procurement
Operations

June 6, 2006

John Graham, Deputy Comptroller of Contracts
Audits and Accountancy
Office of the Comptroller
1 Centre Street, Room 530
New York, New York 10007

RE: NYC Comptroller's Office Draft Audit Report on the Contract of Homes for the Homeless, Inc. with
The Department of Homeless Services to Operate the Saratoga Family Inn (MJ06-084A)

Dear Mr. Graham:

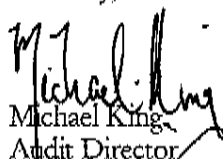
Enclosed are the Department of Homeless Services' (DHS) and Homes for the Homeless' (HFH) responses to the above-mentioned New York City Comptroller's draft audit report.

DHS generally agrees with the audit recommendations relating to programmatic issues, and points out that DHS, in its contract, and standard operating policies and procedures, already requires that providers adhere to the programmatic requirements outlined in the recommendations made by the City Comptroller's auditors. DHS intends to improve the enforcement and oversight of its programmatic policies and procedures.

The audit recommends that DHS recoup from HFH expenses that are unrelated to the Saratoga contract. HFH agrees that the legal and real estate expenses cited in the audit should not have been billed to DHS, and they have already reimbursed DHS for those expenses. However, DHS disagrees that it overpaid for non-contract rooms and will not seek reimbursement. DHS and HFH entered into a good faith agreement, in which HFH would provide rooms at less than the contracted rate to meet DHS' urgent capacity need. HFH met its responsibilities, and DHS received the services for which it paid.

DHS continues to work to improve its internal controls, and financial and programmatic accountability. This New York City Comptroller's audit has assisted DHS in focusing on areas that require greater oversight.

Sincerely,


Michael King
Audit Director

Enclosures

c: Robert Hess
Roger Newman

Steve Pock
Lula Urquhart

Barbara Rosenberg
Julia Moten

Babatunde Salau
Laura Caruso (HFH)



New York City Department of Homeless Services

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Response Date: June 1, 2006

AUDIT TITLE: Audit Report on the Contract of Homes for Homeless, Inc. ("HFH") with the Department Of Homeless Services to Operate the Saratoga Family Inn

AUDITING AGENCY: NYC Office of the Comptroller

DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

1. DHS should recoup \$1,055,339 in payments made to HFH for expenses that are unrelated to the Saratoga contract. These payments include: the \$1,605 in real estate taxes, the \$136,879 in legal fees, and the \$916,855 overpayment amount for the non-contract rooms for Fiscal Year 2004.

Response To Recommendation

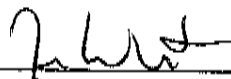
DHS agrees that \$1,605 in real estate taxes and \$136,879 in legal fees are unrelated to the contract and has informed HFH that it will recoup the funds. HFH has already sent DHS a check for \$138,484, to satisfy the real estate taxes and legal fees mistakenly allocated to Saratoga's contract.

DHS disagrees with the findings that there was a \$916,855 overpayment for the non-contracted rooms for Fiscal Year 2004. DHS and HFH entered into a good faith agreement, in which HFH would provide rooms to accommodate DHS's urgent need for capacity for families with children. In calendar year 1999, the average daily census in the family system increased by 9% from the previous year, the largest one year increase since 1993. HFH was able to provide DHS with 20 non-contracted rooms, to meet the capacity crisis much more quickly than would be possible under the contracting process. As capacity growth increased in 2000 and 2001, defying recent trends of minimal growth and even decreases, HFH helped DHS by providing the remainder of the rooms. Since these units were originally designated to address a capacity crisis, they were neither added to the contract nor was Saratoga required to provide Tier II services, although over time Saratoga began to offer the clients in those rooms the same services as those in the contracted Tier II rooms. The rate to which both parties agreed was a rate similar to that offered to other non-Tier II facilities and less than that of the Saratoga contracted rooms. Since the agreement was negotiated in good faith and Saratoga not only upheld its responsibilities by providing the capacity but exceeded expectations by offering Part 900 services, DHS has received the services for which it paid.

RESPONSIBILITY CENTER

DHS Family Services

Signature: _____



Print Name: _____

F. White

Date 6/6/06

New York City Department of Homeless Services

Page 2 of 16

Response Date: June 1, 2006

AUDIT TITLE: Audit Report on the Contract of Homes for Homeless, Inc. ("HFH") with the Department Of Homeless Services to Operate the Saratoga Family Inn

AUDITING AGENCY: NYC Office of the Comptroller

DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

2. DHS should review HFH's financial records and determine whether there were similar overpayments to HFH for the preceding and subsequent years of the contract. DHS should recoup any such overpayments.

Response To Recommendation

DHS will review the close-outs of other years in the contract to ensure that there are not overpayments for legal fees or real estate taxes in those years. However, DHS disagrees that there is an overpayment, due to the agency's use of non-contracted rooms during the contract term. DHS and HFH entered into a good faith agreement, in which HFH would provide rooms to accommodate DHS's urgent need for capacity for families with children. In calendar year 1999, the average daily census in the family system increased by 9% from the previous year, the largest one year increase since 1993. HFH was able to provide DHS with 20 non-contracted rooms, to meet the capacity crisis much more quickly than would be possible under the contracting process. As capacity growth increased in 2000 and 2001, defying recent trends of minimal growth and even decreases, HFH helped DHS by providing the remainder of the rooms. Since these units were originally designated to address a capacity crisis, they were neither added to the contract nor was Saratoga required to provide Tier II services, although over time Saratoga began to offer the clients in those rooms the same services as those in the contracted Tier II rooms. The rate to which both parties agreed was a rate similar to that offered to other non-Tier II facilities and less than that of the Saratoga contracted rooms. Since the agreement was negotiated in good faith and Saratoga not only upheld its responsibilities by providing the capacity but exceeded expectations by offering Part 900 services, DHS has received the services for which it paid.

RESPONSIBILITY CENTER

DHS Family Services and Finance Office

Signature:



Print Name:

Fran Winter

Date 6/1/06

New York City Department of Homeless Services

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Response Date: June 1, 2006

AUDIT TITLE: Audit Report on the Contract of Homes for Homeless, Inc. ("HFH") with the Department Of Homeless Services to Operate the Saratoga Family Inn

AUDITING AGENCY: NYC Office of the Comptroller

DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

3. DHS should enhance its examination of reported expenses charged under the HFH contract to ensure that only those expenses that are incurred in providing services required by the contract are paid to the contractor.


Response To Recommendation

DHS' Audit Services has initiated an expenditure review process for all human service providers, to verify that the invoices sent to DHS for payment are accurately supported by documentation. We expect that this review will help ensure the applicability of billed expenses.

RESPONSIBILITY CENTER

DHS Audit Services

Signature:



Print Name:

Fran Winter

Date 6/1/06

Homes for the Homeless, Inc.

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Response Date: June 1, 2006

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DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

4. HFH should ensure that its board members are free of any potential conflicts of interest.

Response To Recommendation

HFH was not aware of any conflict of interest in this case. HFH employed one of the top two land-use attorneys in the city to handle significant land-use issues, completely unrelated to its Board member. In the future, HFH will avoid any appearance of a conflict of interest.

RESPONSIBILITY CENTER

HFH

Homes for the Homeless, Inc.

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Response Date: June 1, 2006

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DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

5. HFH should bring any potential conflicts of interest to the attention of DHS.

Response To Recommendation

In the future, HFH will discuss with DHS any potential conflicts of interest.

RESPONSIBILITY CENTER

HFH

New York City Department of Homeless Services

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Response Date: June 1, 2006

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AUDIT NUMBER: MJ06-084A

Audit Recommendation

6. DHS should ensure that HFH conducts preliminary health screenings for all clients arriving at Saratoga and that documentation of those screenings is maintained in the clients' folders.

Response To Recommendation

Preliminary screenings are conducted at PATH for every client and delivered to providers upon clients' arrival. The shelter is required to get the copy of the screenings from every new arrival; in case the client doesn't have it the shelter must contact their DHS Program Analyst to secure another copy from PATH. DHS will continue to monitor adherence to this process through Program Analyst visits and monitoring tools.

RESPONSIBILITY CENTER

DHS Family Services

Signature:

[Handwritten Signature]

Print Name:

Ann Winter

Date

6/1/06

Print Title:

[Handwritten Initials]

New York City Department of Homeless Services

Page 7 of 16Response Date: May 31, 2006**AUDIT TITLE: Audit Report on the Contract of Homes for Homeless, Inc. ("HFH") with the Department Of Homeless Services to Operate the Saratoga Family Inn****AUDITING AGENCY: NYC Office of the Comptroller****DRAFT REPORT DATE: May 22, 2006****AUDIT NUMBER: MJ06-084A****Audit Recommendation**

- Z. DHS should ensure that Saratoga holds biweekly meetings with clients throughout their stay and that documentation of those meetings is maintained in the case files.

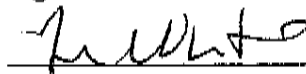
Response To Recommendation

In January 2006, DHS initiated a special Intensive Case Management initiative ("9 to 5 Program") at this site to assist HFH in moving clients to permanency. DHS and HFH staff review cases during DHS' weekly visits to the facility to ensure that bi-weekly meetings are conducted and documented in individual case files.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Lisa Winter

Print Name:

Date

6/16/06

Print Title:

New York City Department of Homeless Services

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8. DHS should ensure that HFH assigns a Case Manager and develops an ILP for each client within 10 days of the eligibility determination.
9. DHS should ensure that HFH Case Managers actively track client progress and regularly revise each client's service plan as necessary.

Response To Recommendation

HFH now has a full complement of staff, so that each client is assigned a Case Manager. DHS monitors through its Intensive Case Management initiative ("9 to 5 Program") to ensure that Independent Living Plans are completed within 10 days of the eligibility determination. Clients' progress is now better monitored through case reassignment, made possible by the change in staffing levels. HFH also added a supervisory level person to its case management staff to provide additional oversight.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:

Fran Wrote

Date

6/6/06Print Title:

New York City Department of Homeless Services

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Response Date: May 31, 2006

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Audit Recommendation

10. DHS should ensure that HFH provides child-care to the children of all its clients who need this service, and that such provision is documented in the clients' folders.


Response To Recommendation

DHS continues to monitor individual assessment of child-care needs in the facility and identify additional space for child-care services if needed, through our Intensive Case Management initiative ("9 to 5 Program"). DHS and HFH staff will continue to review case records, and in particular the Independent Living Plans, in addressing any gaps in services. We will also advise the provider to make appropriate referrals to neighborhood child-care centers to accommodate any unmet needs.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:

Date 6/1/06

Print Title:

New York City Department of Homeless Services

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AUDIT NUMBER: MJ06-084A

Audit Recommendation

11. DHS should ensure that HFH requires and assists its clients to view apartments regularly, according to the written facility rules, and that such assistance is documented in the clients' folders.
12. DHS should ensure that HFH requires its clients to document their reasons for not accepting a housing opportunity.

Response To Recommendation

DHS has required that HFH develop a list of brokers in the neighborhood and that they take the clients to view apartments a minimum of two times a week. HFH Case Managers were also instructed to document all apartment acceptances and rejections in the case records during the DHS weekly case reviews. HFH must also ensure that clients complete the apartment rejection and acceptance forms. During regularly scheduled case record reviews, DHS Program Analysts will ensure that files contain all required documents.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:

Fran Winter

Date: 6/1/06

Print Title:

New York City Department of Homeless Services

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13. DHS should track all clients who stay at the facility for longer than six months and ensure that Saratoga has fulfilled its contractual obligation to require and assist those clients in obtaining permanent housing.
14. DHS should enhance its efforts to expedite the transition of long-term clients to permanent housing.


Response To Recommendation

DHS is tracking all long term stayers and has implemented an Intensive Case Management initiative ("9 to 5 Program") to assist and provide technical assistance to the provider in moving long-term staying families to permanent housing. Cases are reviewed weekly by DHS/HFH staff and corrective action plans are implemented to address any presenting issues that might prevent clients from moving to permanency.

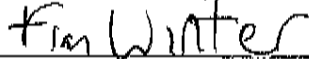
RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:



Date



Print Title:

New York City Department of Homeless Services

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AUDIT NUMBER: MJ06-084A

Audit Recommendation

15. DHS should ensure that HFH provides assistance to its clients in obtaining employment services.

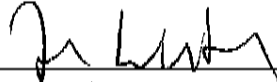
Response To Recommendation

HFH reported that they refer all clients for employment services on-site to the Train And Gain (TAG) program, and they make referrals off site when necessary. DHS advised HFH to document all efforts in the family services case notes, in addition to their TAG case notes. HFH has taken steps to provide additional training to its case management staff and ensure better oversight through regularly scheduled supervisory reviews.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:

Fran Witter

Date

6/1/06

)
Print Title:

Homes for the Homeless, Inc.

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Response Date: June 1, 2006

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Audit Recommendation

16. HFH should follow up on any allegations of abuse in the Saratoga child-care program and document in the client's case folder any actions taken.

Response To Recommendation

It is HFH's practice to follow-up on all allegations of abuse, and this practice was indeed followed in the case cited in this audit report. In this particular case, the actions taken and all follow-up were recorded in the sealed confidential file in the daycare files. In the future, effective immediately, documentation of such incidents will also be recorded in the case folders, rather than exclusively in separate daycare files.

RESPONSIBILITY CENTER

HFH

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DRAFT REPORT DATE: May 22, 2006

AUDIT NUMBER: MJ06-084A

Audit Recommendation

17. HFH should document and make alternative arrangements for clients who are unable to comply with their obligations as defined by the contract and facility rules.

Response To Recommendation

In the specific cases cited in this audit, there were mitigating circumstances as to why the sanction and/or discharge process was not pursued, ranging from mental illness, domestic violence, and employment scheduling conflicts; due to an oversight, those circumstances were not fully documented in the client files. HFH has already begun staff training for caseworkers on making and properly documenting alternative arrangements, however limited, for clients who are unable to comply with their obligations as defined by the contract and facility rules.

RESPONSIBILITY CENTER

HFH

Homes for the Homeless, Inc.

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Audit Recommendation

18. HFH should initiate sanctions against Saratoga clients who consistently violate its rules relating to obtaining permanent housing, or document in the client files why sanctions would be inappropriate.

Response To Recommendation

In the specific cases cited in this audit, there were mitigating circumstances as to why the sanction and/or discharge process was not pursued, ranging from mental illness, domestic violence, and employment scheduling conflicts; due to an oversight, those circumstances were not fully documented in the client files. HFH has already begun working directly with DHS to ensure that case records are up to standard in order to sanction the non-compliant clients. In addition, a June training is scheduled for case managers and supervisors to receive additional training on maintaining thorough and comprehensive client records. In particular, that training will include how to properly document the situations surrounding potential sanctioned cases, particularly the reasons as to why a sanction may not be appropriate.

RESPONSIBILITY CENTER

HFH

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Audit Recommendation

19. DHS should reevaluate the need for the additional 33 rooms and, if it determined that the need continues to exist, DHS should enter into a contract with HFH for these rooms in accordance with the City Charter, PPB Rules and Comptroller's Directive # 24.

Response To Recommendation

DHS has already initiated the process with HFH to bring the 33 non-contracted rooms under the contract. These discussions address the continued need for the additional rooms and appropriate compensation for their usage.

RESPONSIBILITY CENTER

DHS Family Services

Signature:



Print Name:

Sean White

Date

6/6/07

Print Title: