

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 Basic Housing, Inc., with the Department of Homeless Services to Provide Shelter and Support Services

ME09-088A

July 17, 2009



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 responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited Basic Housing, Inc. (Basic Housing), to review its compliance with the key financial and programmatic provisions of its contract with the Department of Homeless Services (DHS) to provide services to clients.

In 2004, Basic Housing entered into a four-year, 11-month contract with DHS to provide 143 families with transitional housing and social services, such as arranging for childcare services, assistance in the search for permanent housing and employment, and health screening. In January 1, 2007, the contract was amended to provide only social services to an additional 178 families. Audits such as this provide a means of ensuring that City contracts are properly managed and that providers effectively comply with the terms of their contracts.

The results of our audit, which are presented in this report, have been discussed with officials of DHS and Basic Housing, 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,



William C. Thompson, Jr.

WCT/ec

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

**Audit Report on the Contract of
Basic Housing, Inc., with the Department of
Homeless Services to Provide Shelter and
Support Services**

ME09-088A

AUDIT REPORT IN BRIEF

The audit determined whether Basic Housing, Inc. (Basic Housing), complied with the key financial and programmatic provisions of its contract with the Department of Homeless Services (DHS) to provide services to homeless clients. DHS is responsible for providing emergency shelter and social services to homeless families and individuals in New York City. DHS provides services through 11 City-run and 205 privately-run shelters, consisting of 49 adult and 167 family facilities.

DHS refers clients to shelters such as Basic Housing, a non-profit organization that runs shelters for homeless families in Manhattan, the Bronx, and Brooklyn (Basic Housing is an affiliate of Basics, Inc.). In 2004, DHS issued a four-year, 11-month contract to Basic Housing to provide 143 families with transitional housing and social services, such as arranging for childcare services, assistance in the search for permanent housing and employment, and health screening. On January 1, 2007, the contract was amended to provide only social services to an additional 178 families located in the Bronx and Manhattan, increasing the total contract amount to \$26,410,637. On September 5, 2008, the contract was amended again to increase by \$21,830,253 for a new total of \$48,240,890 to expire on June 30, 2009. With this amendment, Basic Housing would pay the rent and provide shelter services for up to an additional 500 homeless families.

DHS paid Basic Housing \$7,224,802 in Fiscal Year 2008, as recorded in the City's Financial Management System (FMS).

Audit Findings and Conclusions

Basic Housing did not adequately comply with certain administrative and financial provisions of its contract with DHS to provide services to the homeless. We found significant noncompliance issues with Basic Housing concerning the funds it received from DHS, such as noncompliance with documentation requirements, insufficient evidence that all funds received were used appropriately, and inadequate accounting practices. As a result, \$1.19 million (31%)

of the \$3.86 million we reviewed represents overpayments and unsupported costs that should be recouped. The City would be entitled to 39 percent of the recoupment, or \$463,721. The audit identified an additional \$78,752 in unallocated costs for which a portion should be recouped. Also, there were questionable transfers of almost \$1.3 million from Basic Housing to Basics, Inc., that DHS should reconcile or, if unreconcilable, recover.

Basic Housing also did not consistently provide required social services to clients. Consequently, some clients were compromised in their efforts to obtain permanent housing and become self-sufficient.

Basic Housing has established an accounting system to record its transactions and a client-tracking system to track client services. Basic Housing has also developed a comprehensive set of procedures for providing social services, which enables it to help families obtain permanent housing.

Audit Recommendations

To address these issues, the audit recommends, among other things, that Basic Housing:

- Obtain and maintain the required documentation as per the contract.
- Reexamine its Fiscal Year 2008 close-out request and identify and remove any expenses not related to the contract in order to accurately report all expenses incurred under the contract. Ensure that future close-out requests include only those expenses incurred in relation to the service of the contract.
- Ensure that clients' files contain documentation and evidence of the provision of all required assistance to clients to address their needs.

To address these issues, the audit also recommends, among other things, that DHS:

- Conduct a periodic examination of Basic Housing books and accounting records to ensure that all funds are exclusively used for Basic Housing's contract operations and ensure that Basic Housing develops appropriate cost-allocation plans relative to its affiliate and to other vendors or programs served by Basic Housing.
- Recover the \$1.19 million in overpayments and unsupported costs and the appropriate portion of the \$78,752 in unallocated costs.
- Require Basic Housing to provide a corrective action plan to correct the problems noted in this audit.

Agency Response

In their responses, DHS officials agreed or partially agreed with 10 of the 12 recommendations addressed to them and disagreed with 2, and Basic Housing officials agreed or partially agreed with 9 of the 11 recommendations addressed to them and disagreed with 2.

INTRODUCTION

Background

The Department of Homeless Services (DHS) is responsible for providing emergency shelter and social services to homeless families and individuals in New York City. The services are designed to help homeless families and individuals gain self-sufficiency and move from temporary to permanent housing. DHS provides services through 11 City-run and 205 privately-run shelters, consisting of 49 adult and 167 family facilities. These homeless shelters also provide a variety of services, including food, counseling, recreation, and childcare services.

DHS uses the Housing Emergency Referral Operation (HERO) system to refer clients to shelter providers and uses the Client Tracking System (CTS) to track the shelter services provided to these clients. CTS is used for storing and generating reports regarding client information, such as placement history, personal data, and eligibility status. In addition, the database contains information on the facilities' rosters and vacancies. CTS is updated in part through HERO, which operates 24 hours a day, seven days a week.

DHS refers clients to shelters such as Basic Housing, Inc. (Basic Housing), a non-profit organization that runs shelters for homeless families in Manhattan, the Bronx, and Brooklyn (Basic Housing is an affiliate of Basics, Inc.). In 2004, DHS issued a four-year, 11-month contract to Basic Housing to provide 143 families with transitional housing and social services, such as arranging for childcare services, assistance in the search for permanent housing and employment, and health screening, for a total amount of \$24,469,427. This amount was increased by \$1,941,210, commencing January 1, 2007, to provide only social services to an additional 178 families located in the Bronx and Manhattan. Unlike the 143 families mentioned above who reside in eight buildings lodging only DHS clients, the additional 178 families live in many buildings in which non-DHS clients also reside.

On September 5, 2008, the contract was amended to increase by \$21,830,253 for a new total of \$48,240,890 to expire on June 30, 2009. With this amendment, Basic Housing would pay the rent and provide shelter services for up to an additional 500 homeless families. The funding allocation of the contract is 33 percent Federal, 28 percent State, and 39 percent City. DHS agreed to pay the following rates:

- \$97.52 per family, per day, for shelter and social services provided to 143 families served under the initial contract;
- \$31.20 per family, per day, for social services provided to the 178 families served under the January 1, 2007 amendment; and
- \$107.33 per family, per day, for rent and social services for 500 families served under the September 5, 2008 amendment. (The 500 families include the 178 families previously covered by the January 1, 2007 amendment.)

The rates covering shelter and/or social services are stipulated in the contracts and are adjusted on an annual basis to reflect incentive payments and increases in the cost of operating

the program. A DHS official informed us that the rates are negotiated between DHS and the providers. The contract requires that Basic Housing maintain a minimum occupancy rate of 97 percent. Although paid throughout the year according to the number of care days provided, Basic Housing is ultimately reimbursed under the contracts through year-end close-out requests for its covered expenses rather than for the care days provided.

In the course of handling its responsibilities of providing shelter to homeless families, Basic Housing uses several computer systems: the AWARDS system (implemented in August 2008) is used for case-management purposes to track client intake and discharge information; the MAS 90 system is used to track and process financial information; and an Excel spreadsheet is used for billing purposes.

Clients referred to Basic Housing by DHS go through two processes: intake and case management. During the intake phase, the families' biographical and medical information is documented, required forms are completed, client needs are assessed, and shelter is provided. During the case management phase, the caseworker schedules biweekly meetings with the family to update the client's Independent Living Plan (ILP) and helps the client, who would be living at Basic Housing or in another shelter, find a permanent apartment. Clients need to show that they have been working with a caseworker to search for an apartment.

DHS paid Basic Housing \$7,224,802 in Fiscal Year 2008, as recorded in the City's Financial Management System (FMS).

Objective

To determine whether Basic Housing complied with the key programmatic and financial provisions of its contract with DHS to provide services to clients.

Scope and Methodology

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

The scope of this audit was Fiscal Year 2008 (July 1, 2007, to June 30, 2008).

To gain an understanding of the key financial and programmatic provisions of the contract and the responsibilities of Basic Housing and DHS, and to determine whether Basic Housing and DHS have adequate controls in place, we conducted walkthroughs and observations of several Basic Housing units and interviewed DHS and Basic Housing officials and personnel

involved with monitoring or administering the contracts. In addition, we interviewed DHS officials responsible for processing payments to Basic Housing.

To gain an understanding of relevant policies, procedures, and regulations related to the management of homeless shelters, we reviewed and used as criteria: Basic Housing's DHS contract, DHS procedures (including *Client Responsibility* and *DHS Guidelines and Procedures For Directly Operated Family and Adult Shelters*), and Basic Housing procedures.

To determine whether payments made by DHS were received by Basic Housing and deposited into an approved bank account, bank authorizations were examined. Furthermore, to determine whether Basic Housing appropriately handled funds received from DHS, bank statements and DHS payments were reconciled. To determine whether funds received from DHS were used to purchase goods and services related to the operation of Basic Housing, we selected the month of February and examined all transactions (disbursements, transfers, and deposits) recorded on the bank statement. We analyzed and traced these transactions to verify the sources of the funds and the purposes of the transfers and disbursements. To ensure that employees paid from the February bank account were working for Basic Housing, we matched these employees to the Fiscal Year 2008 employee list and to the life insurance premium payment list. In February 2008, Basic Housing disbursed \$813,885 (including \$106,055 for personnel expenses) and deposited \$808,069 into its bank account.

To determine whether payments made by DHS to Basic Housing were appropriate and properly reviewed and approved, we randomly selected five payments, valued at \$1,431,719 (20%), of the 27 payments totaling \$7,224,802 made by DHS to Basic Housing in Fiscal Year 2008. We reviewed the corresponding invoices, adjustments, and CTS printouts. Invoices issued by Basic Housing were compared to payments made by DHS and discrepancies were reconciled. To determine whether DHS paid Basic Housing for clients that it actually served, we compared the care days of the sampled clients from the invoices to the care days shown on CTS printouts. For these five invoices, we ascertained whether Basic Housing complied with the minimum 97 percent occupancy rate required by the contract.

To determine whether Basic Housing complied with the documentation requirements of the contract, we requested the compliance plan for the Americans with Disabilities Act, monthly expenditure reports, the close-out statements for Fiscal Years 2007 and 2008, inventory records, insurance policies, and the member list for the Board of Directors. We examined the liability insurance policy to determine whether DHS was listed as an insured party and whether the required documentation was provided to DHS. We further examined insurance premium payments to determine whether Basic Housing maintained insurance coverage over the period of the contract.

To further verify the validity of the expenses incurred by Basic Housing, we reconciled the monthly expenditure reports for Fiscal Year 2008 to the close-out request. We judgmentally selected four line items from the monthly expenditure reports and the close-out request and examined the related supporting documentation (e.g., purchase orders, invoices). We also compared the general ledger amounts for the sampled expenditure line items to the close-out request and the supporting documentation. In addition, to ensure that Basic Housing issued

1099-MISC forms when required for income-tax purposes, we examined payments made to 1099-reportable entities that provided services to Basic Housing.

The contract required that Basic Housing hire formerly homeless clients as a condition of the agreement. To verify whether Basic Housing complied with this provision, we obtained the list of formerly homeless clients hired and their W-2 forms, and examined employee lists.

To determine whether DHS adequately monitored the contract provisions relating to social services, we reviewed the two program monitoring reports that DHS prepared on Basic Housing in Fiscal Year 2008. We also obtained a CTS listing of 665 clients served by Basic Housing during Fiscal Year 2008 and randomly selected a sample of 32 clients. We examined the 32 sampled clients' case files to determine whether the caseworkers properly followed the clients' social-service plans and assisted the clients in reaching their goals of self-sufficiency in accordance with the *Client Responsibility* procedures.

To determine whether DHS provided us with a complete and accurate listing of all clients served by Basic Housing during the scope of our audit, we requested the record layout and the programming codes that were used to extract data from CTS to produce the listing of these clients. We also examined the consistency among several CTS client listings we received from DHS. We compared these listings of clients for consistency of client information, such as intake and exit dates, shelter information, and biographical data.

The results of the above tests, while not statistically projected to their respective populations, provide a reasonable basis for us to assess the compliance of Basic Housing with the terms of its contract with DHS.

In its response to the draft report, Basic Housing provided a box of documents in an effort to support its position on a number of the financial concerns presented in the report. Based on our review of these documents, we revised slightly some of the numbers presented in the final report. These changes had no material impact on the audit's findings or on the reported questioned costs.

Discussion of Audit Results

The matters covered in this report were discussed with DHS and Basic Housing officials during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials on April 23, 2009, and was discussed at an exit conference held on May 19, 2009. A draft report was sent to DHS officials on June 10, 2009, with a request for comments. We received written responses from DHS officials dated June 24, 2009, and June 25, 2009. Basic Housing's response was incorporated into the DHS responses. As noted above, Basic Housing also provided a box of documents in an effort to support its position on a number of the financial concerns presented in the report. The sheer volume of this documentation precluded us from attaching it to this report.

In their responses, DHS officials agreed or partially agreed with 10 of the 12 recommendations addressed to them and disagreed with the remaining 2 recommendations, and

Basic Housing officials agreed or partially agreed with 9 of the 11 recommendations addressed to them and disagreed with the remaining 2 recommendations.

One issue in the report that impacts many of the findings relating to DHS's oversight of the financial practices of Basic Housing is the manner in which DHS reimbursed the provider. As previously stated, in 2004, DHS issued a four-year, 11-month contract to Basic Housing to provide 143 families with transitional housing and social services for a total amount of \$24,469,427. Commencing January 1, 2007, a contract amendment increased this amount by \$1,941,210 to provide social services only to an additional 178 families. Unlike the 143 families who reside in eight buildings lodging only DHS clients, the additional 178 families live in many buildings in which non-DHS clients also reside.

During Fiscal Year 2008, DHS reimbursed Basic Housing for the 143 units for homeless clients based on expenses incurred by Basic Housing within approved budgeted amounts. However, DHS incorrectly reimbursed Basic Housing for the social services it provided for the additional 178 families at a set daily rate, based on the number of care days provided, without regard to whether the expenses incurred by Basic Housing for these families were at least equal to the amount received from DHS. Reimbursing one provider in two different ways created a myriad of financial oversight problems for DHS. By paying Basic Housing for the shelter and services it provided to 143 homeless families based on related expenses, it was necessary for Basic Housing's records to clearly show that those expenses did not also include expenses it incurred in providing services to the 178 families, for which it was to be reimbursed based on care days. Without clear supporting documentation, DHS could easily pay twice for the same expenses.

That DHS decided to follow this approach in reimbursing Basic Housing for the 178 families (based upon a set daily rate only rather than also confirming that the payments were at least equal to costs incurred) is puzzling since there is nothing in the January 1, 2007 contract amendment that alters the method of reimbursement from that in the original contract. In fact, the amendment states that "except as modified herein all of the terms, conditions and covenants of the [original] Agreement shall remain in full force and effect." It is difficult to understand how DHS interpreted the original contract and the contract amendment to arrive at a conclusion that two entirely different reimbursement methods should be used for the two programs in Fiscal Year 2008. It is also difficult to understand its Fiscal Year 2008 decision in light of the fact that for Fiscal Year 2007, DHS reimbursed Basic Housing for both groups based on incurred expenses and not on care days.

A significant portion of DHS's response argues that monies paid to Basic Housing for the social services provided to the additional 178 families was a "fee for service" arrangement and not based on actual expenses incurred. This position is troubling to us. As stated above, there is no language in the contract amendment that indicates that the method of reimbursement was changed for the services provided to the additional 178 families. Furthermore, DHS's response suggests that it is irrelevant whether Basic Housing is reimbursed for expenses that were actually incurred. This stance conflicts with the contract, which states that "the Contractor [i.e., Basic Housing] shall make no expenditures with funds provided under this Agreement except those properly incurred pursuant to and during the performance period of this Agreement."

Accordingly, while Basic Housing should be reimbursed for any allowable expenses it incurred in carrying out its contractual duties, there is no warrant for paying City funds to Basic Housing to be used at its discretion in excess of whatever expenses it incurred in fulfilling the contract. Therefore, we wholeheartedly reject DHS's argument and urge the agency to properly safeguard the City funds entrusted to it by ensuring that all funds paid to Basic Housing through this contract are actually used in carrying out the contract's provisions.

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

FINDINGS AND RECOMMENDATIONS

Our audit disclosed that Basic Housing did not adequately comply with certain administrative and financial provisions of its contract with DHS to provide services to the homeless. We found significant noncompliance issues with Basic Housing concerning the funds it received from DHS, such as noncompliance with documentation requirements, insufficient evidence that all funds received were used appropriately, and inadequate accounting practices. As a result, \$1.19 million (31%) of the \$3.86 million we reviewed represents overpayments and unsupported costs that should be recouped. The City would be entitled to 39 percent of the recoupment, or \$463,721. The audit identified an additional \$78,752 in unallocated costs for which a portion should be recouped. A breakdown of these costs is shown in Table I.

Table I
Summary of Unsupported and Unallocated Costs

Category	Amount Audited	Unsupported Costs or Overpayments	Unallocated Costs
February 2008 Expenditure Analysis	\$ 255,042	\$ 5,114	\$ 78,752
Four Expenditure Line Item Analysis	\$ 2,871,191	\$ 452,933	\$0
Payments Received from Another Provider	\$ 730,981	\$ 730,981	\$0
Totals	\$ 3,857,214	\$1,189,028	\$ 78,752
		30.83%	2.04%

In addition, there were questionable transfers of almost \$1.3 million from Basic Housing to Basics, Inc., that DHS should reconcile or, if unreconcilable, recover.

Basic Housing also did not consistently provide required social services to clients. Consequently, some clients were compromised in their efforts to obtain permanent housing and become self-sufficient.

Basic Housing has established an accounting system to record its transactions and a client-tracking system to track client services. Basic Housing has also developed a comprehensive set of procedures for providing social services, which if consistently followed would better enable it to help families obtain permanent housing.

Inadequate Compliance with Administrative and Financial Provisions of the Contract

Noncompliance with Documentation Requirements

The contract requires that Basic Housing render all services in compliance with local laws, rules and regulations, and retain all records and documentation relevant to the contract. However, we found that Basic Housing did not maintain all of the required documentation or provide DHS with all required documents as per the contract provisions.

According to the contract, Basic Housing is required to obtain and maintain commercial general-liability insurance coverage, worker compensation insurance coverage, fidelity bond coverage, and bank authorizations. In addition, Basic Housing is required to maintain inventory records on all furnishings and equipment and provide DHS with annual inventory documentation.

Basic Housing did not have fidelity bond coverage, as required. Fidelity bonds protect DHS and Basic Housing in the event of losses through any fraudulent or dishonest act perpetrated by a bonded employee. Basic Housing officials contended that none of their employees' activities require the purchase of fidelity bond coverage since most DHS payments to Basic Housing are in the form of wire transfers. However, Basic Housing's accounts-receivable clerk handled cash, and the Chief Financial Officer handled and disbursed funds on a daily basis. Therefore, bond coverage was required.

Basic Housing did not provide valid bank authorization forms for the three banks where the funds received from DHS were deposited. The contract requires Basic Housing to deposit funds in DHS-approved bank accounts only and to provide DHS with authorization to those accounts. We identified three bank accounts, but Basic Housing delivered only two bank authorizations, which were not signed by authorized bank representatives and did not include language required by the contract. We also found that Basic Housing did not, as required by the contract, provide DHS with the names and titles of its key employees, a list of the members of its Board of Directors, or the ADA compliance plan. In addition, although Basic Housing maintained an ADA compliance plan, the plan was not consistent with the contract in that it did not describe its activities as required.

Finally, Basic Housing also did not maintain inventory records on all furnishings and equipment and did not provide DHS with annual inventory documentation, as required. It took Basic Housing one month to provide us with a current inventory list of furnishings or any inventory list of computer equipment.

Recommendations

Basic Housing should:

1. Obtain and maintain the required documentation as per the contract, including:
 - Fidelity bond coverage for all employees who are authorized to receive, handle or disburse the funds received under the contract.
 - Valid bank authorization forms from all banks used to deposit DHS funds.
 - Current inventory records for all furnishings and equipment

Basic Housing Response: "Basic Housing intends to obtain Fidelity bond coverage for all employees who are authorized to receive, handle or disburse funds received under the contract.

“Basic Housing has obtained valid bank authorization forms from all banks used to deposit DHS funds.

“Basic Housing has current inventory records for all furnishings and equipment and will present them to DHS annually.”

DHS should:

2. Ensure that Basic Housing provides all required documentation.

DHS Response: “DHS (or the ‘Agency’) is developing an Annual Contractor Checklist, effective FY 10, to ensure that all of its shelter providers, including Basic Housing, Inc. (‘Basic’) provides all required documentation as per the contract between Basic and DHS.”

Noncompliance with Hiring Commitment for Homeless Clients

According to its contract with DHS, Basic Housing is required to hire at least one homeless client or formerly homeless person for each \$250,000 in contract value in a fiscal year. Based on the contract amount of \$5,897,378 for Fiscal Year 2008, Basic Housing should have had 23 formerly homeless persons on its payroll.

However, Basic Housing provided a list of only 12 formerly homeless persons it had employed since the inception of the contract in 2004. We reviewed W-2 forms and information on hirings and terminations and found the following:

- Nine of the 12 formerly homeless employees were hired before the contract started.
- None were hired during Fiscal Years 2005 and 2006.
- One was hired in Fiscal Year 2007 and two were hired in Fiscal Year 2008.
- Only four out of the twelve employees were still employed by Basic Housing as of June 30, 2008.

According to the contract, Basic Housing was required to hire the number of employees agreed upon within 90 days of the inception of the contract. Its failure to do so is “considered as a material breach of the terms” of the contract. Although Basic Housing officials stated that it would be difficult to comply with this requirement, they did not request an exemption from, or a modification of, this contract provision.

The lack of adequate oversight from DHS allowed Basic Housing to continue operating and receiving City funds for more than four years even though it was not complying with a major provision of the contract, which is intended to increase the employment opportunities of formerly homeless clients and help them to achieve self-sufficiency.

Recommendations

Basic Housing should:

3. Comply with the hiring-commitment provision of the contract to ensure that formerly homeless clients are given opportunity for employment

Basic Housing Response: “Basic Housing intends to use its best efforts to comply with the hiring-commitment provision of the contract to ensure that formerly homeless clients are given opportunity for employment. If it becomes not possible to meet the goal totally, Basic Housing will ask for a partial waiver.”

DHS should:

4. Ensure that Basic Housing complies with the hiring-commitment provisions of the contract.

DHS Response: “DHS is developing an Annual Contractor Checklist, effective FY 10, to ensure that Basic provides all documentation, including proof of compliance with the hiring commitment provision, as per the Contract.”

Insufficient Evidence that All Funds Received from DHS Were Used In Accordance with Contract

According to the contract, Basic Housing “shall make no expenditures with funds provided under this Agreement except those properly incurred pursuant to and during the performance period of this Agreement.”

However, our analysis of Basic Housing’s monthly expenditure reports, bank statements, and the Fiscal Year 2008 close-out request, disclosed that Basic Housing had insufficient documentation to support the use of some of the funds received from the City to purchase goods and services related to its contractual obligations. Funds were transferred to bank accounts of the affiliate (Basics, Inc.) and expenditures related to Basics, Inc., were paid from Basic Housing’s bank accounts. DHS paid Basic Housing twice for the same services the shelter provided to another provider’s clients. As a result, our analysis identified almost \$1.3 million in questioned costs: \$1.19 million related to unsupported costs and overpayments that should be recouped, and \$78,752 related to unallocated costs for which a portion should be recouped.

Funds Not Exclusively Used for Expenses Related to the Program

Our review of the accounting records revealed that Basic Housing paid for expenses totaling \$458,047 that were not related to its operation or were unsupported.

Our examination of canceled checks and invoices related to February 2008 disbursements¹ found that there were 59 other-than-personal-service disbursements, amounting to \$510,042, from Basic Housing's operating bank accounts during that month. Fifty-one disbursements, totaling \$255,042, were checks paid to vendors. (The remaining 8 disbursements were transfers to the affiliate's bank accounts.) Of the 51 disbursements, 10 (totaling \$5,114) were for expenses not related to the operation of Basic Housing. Some of these expenditures had been billed to the affiliate, such as a Verizon bill of \$429 for telephone lines not used by Basic Housing and health insurance totaling \$1,268 for two employees not with Basic Housing. In addition, there was \$78,752 in expenditures that were not properly allocated between Basic Housing and the affiliate.

Basic Housing is required to prepare a final close-out request at the end of each fiscal year reflecting the actual expenditures incurred pursuant to the performance of the contract. To verify that expenses reported to DHS on the close-out request were exclusively related to Basic Housing operations, we selected from the statement four lines of expenditures with a total amount of \$2,871,191: professional services, maintenance and repair, office equipment, and rent. We reviewed the invoices and supporting documentation and found that Basic Housing reported expenses totaling \$452,933 for which there was inadequate supporting documentation. Of this amount, \$360,427 had no evidence to support it. The remaining \$92,506 was for expenses that were not related to its operation, but rather had been incurred by its affiliate. See Table II, below, for a breakdown of our analysis of sampled expenditures for Fiscal Year 2008.

Table II
Analysis of Sampled Fiscal Year 2008 Expenditures

Category		Expenditures Reported by Basic Housing A	Amounts with No Supporting Evidence B	Amounts Not Related to Basic Housing Operations C	Total Amounts Unsupported D (B+C)	Amounts to Be Allocated between Basic Housing and Basics, Inc. E
February 2008		\$255,042	\$0	\$5,114	\$5,114	\$78,752
Four Expenditure Line Items	Professional Services	162,170*	39,592	54,078	93,670	0
	Maintenance/Repair	153,683*	1,924	21,646	23,570	0
	Office Equipment	189,927*	88,712	16,782	105,494	0
	Rent	2,365,411*	230,199	0	230,199	0
Subtotal		<i>\$2,871,191</i>	<i>\$360,427</i>	<i>\$92,506</i>	<i>\$452,933</i>	<i>\$0</i>
Grand Total		\$3,126,233	\$360,427	\$97,620	\$458,047	\$78,752

*as per Basic Housing's Fiscal Year 2008 close-out request

¹ Disbursements related to the four expenditure line items selected for our other tests (professional services, maintenance/repair, office equipment and rent) were excluded from this review.

As shown in Table II, for the four expenditure lines we reviewed, Basic Housing used a total of \$92,506 from the funds allocated to the contract to pay for services incurred by the affiliate. For example, under the professional services category, journal entries indicate that \$38,909 was paid for legal expenses for its affiliate and \$100 was mistakenly paid to an employee as a professional-service cost.

This lack of control by Basic Housing over the allocation of costs to the contract was compounded by the lack of proper monitoring by DHS. To minimize the risk that funds provided by the contract will be misused, DHS must more closely review the allocation of expenditures reported on the close-out request.

DHS Paid Twice for Social Services That Basic Housing Provided for Pilgrim Realty

Based on Basic Housing's bank and accounting records, Basic Housing received funds totaling \$730,981 from Pilgrim Realty² to provide social services to some of Pilgrim's clients and did not account for these funds in its close-out request to DHS. We were unable to determine with accuracy the expenses incurred by Pilgrim's clients since Basic Housing did not clearly allocate the costs.

According to DHS officials, to effectively serve the homeless population, Pilgrim referred some of its clients to Basic Housing for social services only. For all other clients for whom Basic Housing provided social services, DHS paid Basic Housing directly through the contract. However, for the Pilgrim clients referred to Basic Housing, DHS paid Pilgrim, and Pilgrim in turn paid Basic Housing \$31.94 per day to provide social services. DHS was aware of Basic Housing's arrangement with Pilgrim in that it included Pilgrim's clients in a CTS listing of clients served by Basic Housing. To properly account for the funds it received, Basic Housing should have allocated costs for the services it provided under the contract and the costs for the services it furnished to other providers.

However, this was not done. Based on our review of the year-end close-out request, Basic Housing sought reimbursement for all of its expenses, including those related to providing services to Pilgrim clients, through the contract. For example, we found \$8,933 in security services provided in February 2008 that should have been allocated to Pilgrim's clients. Basic Housing officials admitted that they did not allocate costs between Basic Housing's own clients and Pilgrim's clients and stated that they intend to implement a cost-allocation plan in the future. Accordingly, DHS should reduce its reimbursement to Basic Housing by \$730,981 that covers the expenses DHS paid to Basic Housing under the contract but which were actually incurred through the provision of social services to Pilgrim's clients.

After we brought this matter to the attention of DHS officials, they began to directly refer these Pilgrim clients to Basic Housing.

² Pilgrim Realty had an arrangement with DHS to provide shelter and social services to homeless clients. Pilgrim paid Basic Housing to provide social services to some of these clients. (As of December 2008, DHS referred those clients directly to Basic Housing to provide social services and to pay for their shelter.)

Inadequate Support for Funds Transferred to Affiliate

Our review of the transactions in Basic Housing bank accounts revealed a substantial mismanagement of funds allocated to the contract. In many instances, Basic Housing transferred funds into and out of its affiliate's bank accounts without any justification for the use of the funds. Consequently, a portion of City funds provided to Basic Housing under the contract may have been used by the affiliate for its operation.

Basic Housing transferred \$970,000 into its affiliate's bank accounts and transferred out of its affiliate's bank accounts \$285,000 in Fiscal Year 2008. Consequently, Basic Housing transferred a net amount of \$685,000 to its affiliate's bank account without adequate supporting documentation. We, therefore, reviewed the Fiscal Year 2008 financial records report to determine whether any liability was recorded in relation to the transactions between Basic Housing and its affiliate and found that Basics, Inc., owed Basic Housing a net total of \$1,266,221 as of June 30, 2008 (which represents \$1,948,288 "due from Basics Inc." and \$682,067 "due to Basics Inc.").

Because of DHS's lack of oversight of the management of the funds provided through the contract, Basic Housing was able to forward funds from the bank account containing DHS funds to its affiliate with inadequate supporting documentation or explanation. By not systematically examining Basic Housing bank transactions and related invoices, DHS allowed Basic Housing to transfer City funds to Basics, Inc., without proper supporting documentation.

To minimize this risk, DHS needs to improve its monitoring to include a periodic examination of bank transactions and expenditures. According to DHS officials, a CPA firm is currently reviewing Basic Housing's Fiscal Year 2007 financial records for DHS.

Recommendations

Basic Housing should:

5. Implement an adequate cost-allocation plan to properly report expenses related to its affiliate as well as those related to services it provides to other vendors or programs.

Basic Housing Response: "Basic Housing intends to implement an adequate cost-allocation plan to properly report expenses related to its affiliate as well as those related to services it provides to other vendors or programs. The plan will clearly explain the methodology used to allocate these expenses."

6. Reexamine its Fiscal Year 2008 close-out request and identify and remove any expenses not related to the contract in order to accurately report all expenses incurred under the contract. Ensure that future close-out requests include only those expenses incurred in relation to the service of the contract.

Basic Housing Response: Basic Housing partially agreed with this recommendation but stated: "Basic Housing believes that all expenses approved by DHS in its Fiscal Year

2008 closeout were related to the contract and are reported accurately. DHS has given us the final closeout, and Basic Housing is in agreement with it. Cluster I was an expense line budget contract. Cluster II was fee for service, and Pilgrim was a fee for service arrangement between Basic Housing and Pilgrim. The Fiscal Year 2008 expense closeout was for the Cluster I contract. Basic Housing will ensure that future close-out requests include only those expenses that were incurred in relation to the service of the contract.”

Auditor Comment: The initial contract to provide shelter and social services for 143 families (Cluster I) was amended to also provide social services to an additional 178 clients (Cluster II). The amendment specified that “except as modified herein all of the terms, conditions and covenants of the Agreement shall remain in full force and effect.” The initial contract stated that “the Contractor shall make no expenditures with funds provided under this Agreement except those properly incurred pursuant to and during the performance period of this Agreement.” Therefore, any expenditures incurred by Basic Housing for its Cluster I and Cluster II clients should be included in its close-out requests for DHS to verify that they are related to the agreement. In addition, although Basic Housing provided a May 12, 2009 trial balance attempting to show the allocation of staff to the provision of services to Pilgrim clients, it provided insufficient documentation to support the trial balance analysis.

DHS should:

7. Review Basis Housing close-out request for Fiscal Year 2008 and make any necessary adjustments to ensure that it includes only those costs incurred under the contract. Adjustments should include the following items identified in this report:
 - Deduct \$360,427 in reported expenditures for which Basic Housing did not have supporting documentation.
 - Deduct \$97,620 representing payments made by Basic Housing that were not related to its operations.
 - Deduct a portion of the \$78,752 in costs that should have been allocated to the affiliate.
 - Deduct from the amount paid to Basic Housing an amount equal to Pilgrim’s payment of \$730,981 to Basic Housing that covers overhead and other expenses DHS already paid to Basic Housing for services provided under the contract.

DHS Response: DHS partially agreed with this recommendation but stated: “DHS will assess accuracy and completeness of costs and documentation with respect to Basic’s Fiscal 2008 close-out request; however, the Agency disagrees with the estimates contained in Recommendation #7 because the findings of the Draft Audit Report (the ‘Draft’ upon which Recommendation #7 is based are erroneous. . . . in calculating the total amount of questioned costs, the auditors: (1) improperly relied on preliminary numbers in Basic’s preliminary close-out request for Cluster I instead of the final FY 08 Close-Out Statement (the ‘Official Close-Out’) that was subsequently approved by DHS; (2) the auditors’ calculation erroneously included a portion of the Agency’s fee-for-

service payments to Basic for Cluster II units even though these payments were based on actual care days and therefore not subject to close-out; and (3) the auditors included in their calculation DHS' fee-for-service payments to Pilgrim even though the arrangement was wholly outside the Contract.

Auditor Comment: DHS's statement that we "improperly relied on preliminary numbers in Basic's preliminary close-out request for Cluster I" is incorrect. The close-out requests provided to us were the same ones provided to DHS to determine the final payments. With regard to the social-services-only (Cluster II) clients, the contract amendment including them with the initial (Cluster I) contract specified that "except as modified herein all of the terms, conditions and covenants of the Agreement shall remain in full force and effect." The initial contract required that none of the funds provided under the contract were to be used for expenditures "except those properly incurred pursuant to and during the performance period" of the contract, and the contract amendment made no modification to this provision. Accordingly, any request for monies by Basic Housing, regardless of whether for its Cluster I and Cluster II clients, should be supported in the close-out requests by the related expenditures, and all transfers of funds to the affiliate should be clearly documented and explained. With respect to Pilgrim's clients, Basic Housing did not have a cost allocation plan and included expenditures incurred serving Pilgrim's clients in the close-out request to DHS for this contract. Accordingly, DHS should reduce its reimbursement to Basic Housing by the \$730,981 that covers the expenses incurred through the provision of social services and that Basic Housing already received in payment from Pilgrim.

DHS Response: "The Draft fails to note that the Contract allows Basic to use up to 8.5 percent of its annual budget to pay for overhead expenses. . . . Also, DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate. Further, whether a provider appropriately used City funds can be comprehensively determined only after its contract expenditures have been closed out at the end of the fiscal year and audited."

Auditor Comment: Since Basic Housing did not have a cost allocation plan, DHS should determine the portion of the expenditures related to the affiliate that were paid by Basic Housing. We do not question the budget provision that permits a payment of 8.5 percent of the provider's annual budget for overhead expenses. This is simply another line item in the year-end close-out statement. The point is that all other line items in the close-out statement should only cover expenses incurred by Basic Housing for Basic Housing operations.

DHS Response: "Notwithstanding the above, as part of the Agency's corrective action plan, DHS Audit Services will review the appropriateness of the FY 08 transfer of funds between Basic and its affiliate to determine whether additional funds should be recouped. Also, DHS will retain a CPA firm to conduct an audit in FY 10 of Basic's FY 09 operating funds, to determine whether they were appropriately expended and administered."

“Thus, as part of the Agency’s corrective action plan, DHS Audit Services will review the appropriateness of Basic’s FY 08 Cluster I expenditures and determine whether additional funds should be recouped.”

8. Conduct a periodic examination of Basic Housing books and accounting records to ensure that all funds are exclusively used for Basic Housing’s contract operations and ensure that Basic Housing develops appropriate cost-allocation plans relative to its affiliate and to other vendors or programs served by Basic Housing.

DHS Response: DHS partially agreed with this recommendation but stated: “DHS already utilizes several tools to monitor a shelter provider’s compliance with contract provisions and to ensure that the provider’s use of City funds is appropriately expended. DHS retains contracts with six independent accounting firms (‘CPA firms’) to conduct audits of one-third of the Agency’s human services contracts every year. . . . DHS Audit Services unit also conducts ‘expenditure reviews’ each year. The auditors randomly select a provider and examine documentation concerning all expenditures incurred by that provider during a randomly selected month within the past two years. In addition, all contract providers are required to submit certified financial statements and A-133 audits . . . on an annual basis. The internal and CPA audits, special audits as necessary, and expenditure reviews, coupled with the fiscal year-end close-out process for line-item budgeted contracts and the Care-Day Reconciliation Process for fee-for-service providers, provide more than adequate monitoring of shelter providers’ use of City funds. Further, whether a provider appropriately used City funds can be comprehensively determined only after its contract expenditures have been closed out at the end of the fiscal year and audited. Notwithstanding the above, DHS will further examine these issues in the context of the upcoming independent accounting firm audit covering Basic’s use of FY 09 contract funds.”

Auditor Comment: We commend DHS for planning to retain an independent accounting firm to audit Basic Housing’s Fiscal Year 2009 operating funds and for its plan to continue reviewing the appropriateness of Basic Housing’s Fiscal Year 2008 expenditures. We also recognize that the provider submitted a certified financial statement for Fiscal Year 2008. We are concerned, however, that DHS has provided no evidence that it has conducted an “expenditure review” of Basic Housing, which is one of DHS’s largest providers.

9. Review the appropriateness of the transfers of funds between Basic Housing and Basics, Inc., to determine whether additional funds should be recouped from Basic Housing.

DHS Response: DHS partially agreed with this recommendation but stated: “DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate. A provider appropriately used City funds can be comprehensively determined only after its contract expenditures have been closed out at the end of the fiscal year and audited. Notwithstanding the above, DHS will

further examine these issues in the context of the upcoming independent accounting firm audit covering Basic's use of FY 09 contract funds."

Auditor Comment: Basic Housing does not properly support its fund transfers to the affiliate's bank accounts. It also does not properly allocate expenses between itself and the affiliate. Even though 8.5 percent of the annual budget is allocated to overhead expenses, Basic Housing did not provide any documentation supporting the fund transfers between Basic Housing's and the affiliate's bank accounts.

Inadequate Accounting Practices

Basic Housing failed to comply with certain accounting provisions of the contract. Consequently, Basic Housing prepared unreliable financial reports with insufficient supporting documentation or justifications.

The contract requires that Basic Housing maintain separate and accurate books, records, documents and other evidence to ensure that it properly reflects all direct and indirect costs of any nature expended in the performance of the contract. However, we found: Basic Housing's financial records, such as the general ledger, supporting documentation and year-end close-out request amounts could not be reconciled; expenses incurred and paid were not always properly substantiated or justified; and there was a lack of segregation of duties in Basic Housing's accounting unit. In addition, 1099-MISC forms were often not issued as required for income tax purposes.

Lack of Reliable Accounting Records to Support the Use of Funds

Our review of the financial records revealed that there was a lack of reconciliation at Basic Housing to ensure the accuracy of the expenses reported on the close-out request.

We examined the invoices related to our sample of four expenditure line items and compared them to the transactions recorded on the general ledger and to the amounts reported on the close-out request. We found that the invoices, general ledger, and close-out request amounts did not reconcile, as shown in Table III, below.

Table III
Comparisons of Invoice/Check Register Payments
And General Ledger and Fiscal Year 2008 Close-out Request Amounts

Expenditure Line Item (1)	Amounts as per Invoices and Check Register (2)	Amounts as per General Ledger (3)	Amounts as per the Fiscal Year 2008 Close- out Request (4)	Difference between Amounts as per Invoice and Check Register and Closeout Request Amounts (Col. 4 – Col. 2)
Professional Cost	\$122,578	\$123,670	\$162,170	\$39,592
Maintenance and Repair	\$151,759	\$213,670	\$153,683	\$1,924
Office Equipment	\$101,215	\$195,115	\$189,927	\$88,712
Rent Payments	\$2,135,212	\$2,362,625	\$2,365,411	\$230,199
Totals	\$2,510,764	\$2,895,080	\$2,871,191	\$360,427

On the close-out request, Basic Housing reported amounts that were not actually paid. For example, rent expenses that were recorded on the close-out request were inflated by approximately \$230,000. There were instances in which invoice amounts were not recorded on the general ledger, or journal entries were made for invoices not relating to purchases made for Basic Housing. For example, legal fees of \$70,509 were recorded on the general ledger and on the close-out request; however, based on the invoices reviewed, only \$31,500 was for Basic Housing. In another example, audit fees of \$23,000 were recorded on the check register and the general ledger, but the close-out request reported \$59,000 in such fees and invoices only support \$20,000 in such expenses.

As a result of these inconsistencies, the validity and reliability of Basic Housing's financial information is questionable and we are unable to determine the actual costs incurred by the contract in Fiscal Year 2008. In addition, we found no evidence that DHS questioned the validity or reliability of these expenses.

Lack of Proper Supporting Documentation for Expenses Paid

The contract requires that Basic Housing maintain proper and sufficient evidence, vouchers, bills and receipts showing the propriety and necessity of any and all expenditures. However, Basic Housing did not have proper supporting documentation for some of the expenditures reported.

As stated previously, Basic Housing could not provide any documentation to support expenditures totaling \$360,427 out of the \$3,126,233 in expenditures reviewed. As a result of Basic Housing's failure to maintain proper records, it is not verifiable that Basic Housing

appropriately spent the amounts it reported on its close-out request and the risk that funds could have been misappropriated is increased.

Close-out Request Not Submitted in a Timely Manner

Basic Housing did not comply with DHS procedures regarding a timely submission of the Fiscal Year 2008 year-end close-out request. DHS close-out request preparation procedures require that the close-out request be submitted by September 1, 2008. Although we requested this report in October 2008, an initial draft close-out request was not provided to us until January 29, 2009. We received a revised draft statement from Basic Housing on March 4, 2009. DHS did not complete its review of Basic Housing's close-out request until March 27, 2009.

It should be noted that DHS made advanced payments to Basic Housing for Fiscal Year 2009, including an October 2008 payment totaling \$1,481,880, even though it had not received the June monthly expenditures report and the close-out request. The contract states that no monthly payment will be made to Basic Housing if it has not submitted all required reports (e.g., close-out requests to DHS). Because of a lack of timely oversight by DHS, it took Basic Housing almost seven months to initially account for its Fiscal Year 2008 expenses and DHS an additional two months to complete its review of the close-out request.

Lack of Segregation of Duties over Accounting Functions

Basic Housing did not properly segregate duties in its accounting unit relative to the processing of payments received from DHS. Further, there was little supervisory oversight of these functions. As a result, most financial transaction tasks were performed by the same person—the Chief Financial Officer (CFO).

The contract requires that Basic Housing comply with generally accepted accounting principles, one of which is that more than one person perform the tasks relating to a financial transaction (i.e., that there be a proper segregation of duties) to help ensure the protection of financial assets. The activities of handling the mail, making bank deposits, reconciling bank statements, making journal entries, and transferring funds between bank accounts were all performed by the CFO. We also observed that many journal entries were recorded in the general ledger without any justification having been noted. Basic Housing officials stated that they planned to implement new internal controls to better segregate and monitor these tasks.

In addition, we observed that there were no written justifications for the Fiscal Year 2008 transfers of funds from the Basic Housing bank accounts to the affiliate's bank accounts. We were provided only the bank statements showing where most of the funds were deposited. This situation creates an environment in which misappropriation of funds could occur. To comply with the provisions of the DHS contract, Basic Housing must implement a sound system of internal controls to properly segregate duties relating to the handling, reporting, and reconciling of financial transactions.

DHS should enhance its monitoring procedures to ensure that Basic Housing has in place proper internal controls to account for its expenditures under the contract.

Miscellaneous Income Not Always Reported

Basic Housing failed to identify 1099-reportable entities, such as real estate companies, it made payments to since the inception of the contract. According to IRS regulations, sole proprietors, partnerships, and limited liability companies are 1099-reportable entities.

Basic Housing did not issue 1099-MISC forms to 17 1099-reportable entities in relation to \$1,242,456 in payments made during Calendar Year 2007. Basic Housing officials said that, based on the advice of the independent auditors hired in November 2008, they started issuing 1099-MISC forms to some entities for 2008. However, we found that the 1099-MISC forms issued to some entities underreported payments by \$346,534 for 2008 and that other 1099-reportable entities did not receive 1099-MISC forms at all, even though they received payments from Basic Housing totaling \$134,235.

By not issuing 1099-MISC forms to 1099-reportable entities, Basic Housing may be unintentionally helping those entities understate their income to the IRS and thereby lower their federal, state, and local taxes.

Recommendations

Basic Housing should:

10. Establish and implement controls over its financial operations to ensure that:

- Financial records reconcile and financial information is reliable.
- Expenses incurred pursuant to the contract are properly supported.
- Its year-end close-out request is submitted in a timely manner.
- There is a proper segregation of duties in the accounting unit over the handling, reporting, and reconciling of transactions.

Basic Housing Response: “Basic Housing has established and implemented controls over its financial operations to ensure that financial records reconcile and financial information is reliable. Basic Housing’s financial management reviews the journal entries and the account analyses done by the accountants. In addition, the supporting documentation of the financial statements is checked by financial management. The Comptroller’s office audited Basic Housing before it closed out its fiscal year so the audit team may have found some expenses without supporting documentation that was later found in its yearly closeout process. Basic Housing will scrutinize its current procedures looking for ways to improve its reconciliation process and to strengthen the reliability of its financial information.

“Basic Housing will enact new procedures to strengthen its process of gathering and filing supporting documentation.

“Basic Housing intends to establish and implement controls over its financial operations to ensure that its year-end closeout request is submitted in a timely manner.

“Basic Housing has already segregated the duties of handling the mail (Accounting Supervisor), making bank deposits (the CFO) and reconciling bank statements (Accountants). We will now segregate the duties of making journal entries and transferring funds between bank accounts.”

Auditor Comment: Basic Housing financial records do not reconcile. Documentation Basic Housing provided with its response did not allow us to properly reconcile these financial records.

11. Identify all 1099-reportable entities and issue 1099-MISC forms for income tax purposes.

Basic Housing Response: “Basic Housing has identified all 1099-reportable entities and issued 1099-MISC forms for income tax purposes.”

DHS should:

12. Ensure that Basic Housing has proper internal controls in relation to the reporting of expenditures under the contract.

DHS Response: “DHS will continue to monitor its providers’ accounting practices through internal Agency and CPA audits. DHS will retain a CPA firm to conduct an audit in FY 10 of Basic’s FY 09 operating funds to determine whether they were appropriately expended and administered.”

13. Ensure that it does not make monthly payments to Basic Housing if the contractor fails to submit monthly expenditure reports and year-end close-out requests in a timely manner as required by the contract.

DHS Response: DHS disagreed with this recommendation and stated: “The close-out process is initiated by the provider’s submission of closeout documents to DHS. The Agency reviews the documentation and returns it to the provider if revision is required. Depending on the complexity and size of the contract, this can be a lengthy process. The Basic Contract at issue here, with its combination of line-item and fee-for-service payment mechanisms, is particularly complex and, as a result, the close-out process required an unusually long time to complete. Additionally, DHS’ providers cannot close out their contracts with the Agency until after they close out their own books and records. Finally, DHS must exercise prudence with respect to withholding payments to its shelter providers, and considers the nature and significance of contractual compliance matters as well as impacts on the family shelter system.”

Auditor Comment: DHS should enforce the dateline for the filing of expenditure reports and year-end close-out requests to ensure that Basic Housing expenditures are reconciled in a timely manner.

Lack of Controls over the Processing of Payments Made by DHS

Our review of Basic Housing's invoices submitted to DHS and payments made by DHS to Basic Housing disclosed that DHS had inadequate controls over the billing process. Consequently, DHS paid Basic Housing for days of care it did not provide.

According to DHS, its Finance unit receives the invoices and sends them to its Program unit for approval. The Program unit verifies the information and authorizes payment. The Finance unit makes the payment to Basic Housing and sends the invoices to the Billing unit to be reconciled to client data in CTS. In the event there are any discrepancies in care days, the Billing unit produces revised invoices and advises the Finance unit of the amount of the discrepancies to be recouped during subsequent payments to the provider.

We reviewed 5 of the 27 payments made by DHS to Basic Housing in Fiscal Year 2008 and requested the corresponding invoices. Our sample consisted of payments made on invoices submitted for October and December 2007, and January, February, and March 2008. Our analysis identified discrepancies relating to missing client records, duplicated client records, inconsistent care-day information, and overlapping periods of care. For four of the five months, DHS made payments totaling \$25,948 for clients who were not identified as clients on the CTS list of Basic Housing clients for Fiscal Year 2008 provided to us by DHS officials. In addition, for the October invoice, there were inconsistencies between the invoice and data on the CTS list of clients amounting to a discrepancy of \$5,600. For the December invoice, 11 rooms were listed twice for the same time periods, resulting in a discrepancy of \$33,500 (total discrepancies for the month were \$38,117). The January invoice had one room that was listed twice for the same time period, which caused the invoice amount to be inflated by \$990. For the February invoice, a client was listed as residing in three different rooms on the same days. A similar misrepresentation was repeated on the March 2008 invoice for the same client. These discrepancies resulted in a total overpayment to Basic Housing of \$74,487.

Based on its reviews of the invoices, DHS identified only \$38,412 (\$38,117 for December and \$295 for February) in discrepancies. Table IV, below, shows the invoice discrepancies we identified and those not resolved by DHS.

Table IV
Discrepancies in Sampled Invoices

Period (1)	Discrepancies on Invoices Identified by Auditors (2)	Discrepancies Resolved by DHS (3)	Duplicate Records Not Resolved by DHS (4)	Adjustments to Invoices Not Applied by DHS (5)	Total Discrepancies Not Resolved by DHS (Col. 4 + Col. 5)
10/07	\$5,600	\$0.00	\$0	\$5,600	\$5,600
12/07	\$44,306	\$38,117	\$0	\$6,189	\$6,189
01/08	\$3,066	\$0.00	\$990	\$2,076	\$3,066
02/08	\$15,031	\$295	\$491	\$14,245	\$14,736
03/08	\$6,484	\$0.00	\$3,045	\$3,438	\$6,484
Totals	\$74,487	\$38,412	\$4,526	\$31,548	\$36,075

Note: due to rounding, numbers in each column and row may not add up

DHS did not make any adjustments for the October 2007, January 2008, and March 2008 invoice discrepancies because its own reconciliation of those invoices did not resolve these discrepancies. According to the Billing unit manual, the invoice reviewer, or auditor, should generate a Prepayment Register that lists the shelter's lodging history (based on CTS records) and compare the Prepayment Register, line by line, against the shelter invoice. After comparing the invoice and CTS data, the assigned auditor should resolve any differences and verify whether modifications need to be made to CTS data. The Billing unit director reviews and approves the invoices and sends them to the Billing unit supervisor to be processed for payment.

Based on the discrepancies found, however, it appears that the Billing unit did not follow the procedures for reconciling invoices received from contractors. The Billing unit did not consistently verify the accuracy of the client invoices and determine the discrepancies to be recouped from the provider's subsequent payments. Future contract budget amounts are established, in part, based on the number of care days provided during previous years. If DHS does not maintain reliable client information in CTS, it may set contract budget amounts at unjustifiably high levels in future contract years.

Recommendations

DHS should:

14. Consistently reconcile invoices against CTS, resolve any discrepancies, and recoup funds as necessary.

DHS Response: "At the Exit Conference, DHS provided the auditors with documentation indicating that they had misidentified codes in CTS. For example, the auditors misidentified a CTS code indicating a change in family composition as the family's exit from shelter and recorded this 'discrepancy' on Table IV. This single misidentified CTS code accounted for \$32,130 of the \$36,075 on Table IV. DHS was able to account for all

of the \$36,075 as resulting from misidentification of CTS codes and adjustments handled in the final billings.”

Auditor Comment: The discrepancies we identified were due to duplicate client records in invoices, overlapping periods of care, and inaccurate client information in CTS. DHS provided insufficient evidence that these discrepancies were resolved.

15. Ensure that accurate client information is maintained in CTS.

DHS Response: “DHS ensures that client information is maintained in CTS by conducting a daily reconciliation of shelter units and CTS data as part of the Agency’s Care-Day Reconciliation Process.”

Auditor Comment: The audit found many differences between client information in invoices submitted by Basic Housing and client lists generated by CTS.

Basic Housing Not Consistently Complying with Certain Programmatic Provisions of the Contract

The main purpose of the contract is the provision of temporary housing and a variety of social services to homeless families to help them achieve self-sufficiency and find permanent housing. However, our review of client files disclosed that Basic Housing did not consistently provide required services to clients.

According to the contract, Basic Housing is required to provide or arrange for a number of services, including but not limited to the following: new client orientation; health screening; temporary housing and supervision; assessment services; permanent housing preparation services; and childcare services.

During the intake phase, Basic Housing caseworkers evaluate client needs and complete required forms, such as medical and public assistance referral forms. The caseworker develops an Individual Living Plan (ILP), which identifies the goals the client needs to attain to become self-sufficient and secure permanent housing. A copy of the signed ILP is given to clients and is reviewed biweekly. After the intake phase, the clients meet with the caseworker regularly to discuss their progress and their search for housing.

We randomly selected a sample of 32 of the 665 clients served by Basic Housing during Fiscal Year 2008. Our sample consisted of 16 residential clients and 16 social-services-only clients. Based on our analysis, we determined that Basic Housing did not consistently comply with certain programmatic provisions of its contract. Our analysis disclosed the deficiencies identified in the following sections.

Basic Housing Did Not Consistently Comply With the Record-keeping Requirements

Two client files (relating to one residential client and one social-services-only client) could not be located. As a result, Basic Housing could not demonstrate to us that services were provided to the two clients. We, therefore, reviewed 30 client files. Our review disclosed that many of the 30 client files in our sample did not have all the required documents.

According to Basic Housing procedures, the intake and counseling process must include the completion of documents such as: the Client Acknowledgment of Responsibility Form (CARF), Family Case Record Admission/Assessment Form, Service and Biweekly Plan/Independent Living Plan for Families, and the Housing Plan (which presents information on client family composition, housing needs, sources of income, and general health). The caseworker must document in progress notes every meeting or contact with the clients and all contacts made with outside agencies on behalf of the clients. This documentation serves as evidence that Basic Housing has fulfilled its contractual responsibilities and also serves as evidence that clients are aware of their responsibilities and the options and opportunities available to them.

However, many of these documents were not in the client files. As a result, Basic Housing is unable to demonstrate that it consistently complied with the programmatic provisions of the contract.

Health Screenings

For 4 out of 30 client files reviewed, we did not find health-screening forms for each member of the client's family. Therefore, we have no assurance that all members of the clients' families were screened as required. Further, we did not find evidence that Basic Housing caseworkers took steps to ensure that each family member's medical needs were addressed, as required by the DHS *Client Responsibility* procedures.

Biweekly Meetings

Our analysis of client files uncovered no evidence that all of the required biweekly reviews were conducted for 4 (15%) of the 27 clients. (For two of the 30 clients, this requirement was not applicable due to the clients' short lengths of stay and one of the clients had surgery.) Of the four clients, files for two of them contained no evidence that any of the reviews were conducted. As a result, ILPs were not being properly updated and Basic Housing is unable to demonstrate that it periodically assessed the progress of these clients.

In addition, the biweekly review form is supposed to be prepared by the caseworker and signed by the supervisor. However, biweekly review forms were not consistently signed by the supervisor. To assess this weakness we considered only those cases in which over 20 percent of the biweekly review forms were not signed by the supervisors. In 10 (37%) of the 27 client files reviewed, more than 20 percent of the biweekly review forms were not signed by the supervisor. As a result, we question whether supervisors are reviewing the work of their caseworkers.

Inadequate monitoring of caseworkers means that supervisors are less able to ensure that caseworkers are properly serving clients.

School Enrollment

There was no evidence of school enrollment for 5 (23%) of the 22 clients whose children were of school age. In instances where the clients' children attended school during the day, we searched the files for evidence of school verification letters for all school-age children and found evidence for only 17 of them. Accordingly, Basic Housing is unable to demonstrate that it is properly serving the children of these five clients by ensuring that they are enrolled in school.

Recommendations

Basic Housing should:

16. Ensure that client files contain documentation and evidence of the provision of all required assistance to clients to address their needs.

Basic Housing Response: "Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April 2009, Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators."

17. Ensure that caseworkers hold biweekly meetings with clients throughout their stay in the program and that biweekly review forms are reviewed by supervisors.

Basic Housing Response: "Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April 2009, Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators."

Not All Required Services Provided in a Timely Manner

According to a review of sampled client files, Basic Housing did not provide certain required services on time, if at all. The CARF, the Family Case Record Admission/Assessment form, and the Service and Biweekly Plan/Independent Living Plan for Families form were not completed within the required lengths of time for 12 of the 30 clients sampled. Consequently, clients are not being adequately served, which may impede their efforts to become self-sufficient and secure permanent housing.

According to the DHS *Client Responsibility* procedures, the CARF, which sets the requirements for remaining eligible for temporary housing assistance, must be provided to the clients and signed by them within 10 calendar days of arrival at the shelter. The Family Case Record Admission/Assessment Form, which includes a detailed assessment of family health

information, child welfare, family history, client employment, and child care needs, must be completed by the 10th day of admission to the program. The initial ILP, which describes the tasks to be accomplished based on client needs, must also be completed by the 10th day of the client's arrival at the facility. The ILP should be updated during each biweekly meeting. Our analysis of case files for the 30 sampled clients revealed that 12 did not receive one or more of the required services in a timely manner and five did not receive one or more of these services at all. A breakdown of our analysis is shown in Table V, below.

Table V
Analysis of Provision of Services to Sampled Clients

Required Task or Service	Required Time Standard	# of Sampled Clients for whom Service Required	# of Sampled Clients Service Not Provided*	# of Sampled Clients Time Standard Not Met*	Range of Days Service Provided Late
Preparation of CARF Form	By 10 th day of admission	30	0	7	4-34 days
Preparation of Family Case Record Admission/Assessment Form	By 10 th day of admission	30	4	9	3-34 days
Preparation of ILP	By 10 th day of admission	30	4	4	15-36 days

*Some clients fall under more than one category

Not completing the case-assessment and service-planning forms in a timely manner ultimately prolonged the clients' lengths of stay in the program. According to the contract, the maximum length of stay in the program for a client is six months, subject to the *Client Responsibility* procedures. Sixteen of the 30 clients in our sample exceeded the six-month time period, ranging from 200 to 653 days. To reduce the lengths of stay in the program, Basic Housing should improve its case assessment and service planning procedures.

Recommendations

Basic Housing should:

18. Ensure proper oversight of the intake and case management process in order for client assessment and service planning tasks to be completed in a timely manner.

Basic Housing Response: "Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April 2009, Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators."

Housing and Employment Assistance

Basic Housing is required to assist clients in finding permanent housing within six months. To achieve this objective, Basic Housing must help clients reach the goals identified in their ILPs, which are mainly related to obtaining permanent housing and employment. However, our analysis revealed that Basic Housing did not enforce its own procedures requiring clients to search for and view at least two apartments per week. The contract requires that clients of Basic Housing seek permanent housing with the assistance of the provider. For one of the 16 sampled clients who had been certified for a housing program there was no evidence that the clients were actively searching for permanent housing or that Basic Housing was actively encouraging them to engage in such a search.

The contract also requires Basic Housing to provide clients with assistance in securing employment, training and placement services. For 3 of the affected 23 clients (the remaining 7 of the 30 clients received supplemental security income, had medical conditions, or were already employed), no employment profiles were completed and there was no evidence that Basic Housing provided employment search assistance.

Recommendations

Basic Housing should:

19. Ensure that it provides the necessary assistance to encourage clients to view apartments regularly.

Basic Housing Response: Basic Housing disagreed with this recommendation and stated: “Basic has consistently used daily van runs to transport families to search for apartments. While families agree to participate as indicated by their signature on the CARE, there are instances where illness, and other required appointments interfere with daily compliance.”

Auditor Comment: Basic Housing needs to properly document its efforts to help clients search for apartments.

20. Ensure that appropriate employment services are provided to help homeless families achieve self-sufficiency.

Basic Housing Response: Basic Housing disagreed with this recommendation and stated: “The contract is clear that employment search assistance is provided if necessary and appropriate and does not mandate this for every client. Basic Housing employs two job developers to support the families in their job searches.”

Auditor Comment: According to the Client Responsibility procedures, “a provider is responsible for assisting the family in securing employment services.” We excluded those clients who received supplemental security income, had medical conditions, or were already employed.

DHS should:

21. Require Basic Housing to provide a corrective action plan to correct the problems noted in this audit.

DHS Response: “While the Agency noted deficiencies similar to those identified by the auditors in its programmatic evaluation of Basic for the first half of FY 09, in its corrective action plan, Basic demonstrated its ongoing commitment to improve its performance. Moreover, on May 18, 2009, DHS conducted a retraining of Basic staff on what information must be timely documented in the client’s case record and what documents must be filled out and made a part of the case record.”

Other Matter

Pilgrim Was Paid for Services It Did Not Provide

Clients were assigned to Pilgrim by DHS for shelter and social services, but Pilgrim purchased the social services for some of them from Basic Housing. Basic Housing stated that it did not have a written agreement with Pilgrim covering the services provided to these clients.

We examined the December 2007 and January 2008 invoices submitted by Pilgrim to DHS for payment and compared them to the corresponding invoices sent to Pilgrim by Basic Housing. Our analysis showed that Pilgrim billed and DHS paid \$1,789 for services that Basic Housing reportedly did not provide (eight care days in December 2007 totaling \$256 and 48 care days in January 2008 totaling \$1,533).

These overpayments resulted from inappropriate monitoring by DHS of the services provided to clients by third-party vendors. DHS should implement stronger controls to ensure that it only pays for care actually provided when its vendor uses a third-party vendor to provide social services.

Recommendations

DHS should:

22. Recoup the overpayments of \$1,789 made to Pilgrim for the December 2007 and January 2008 invoices.

DHS Response: DHS disagreed with this recommendation and stated: “Under the arrangement between DHS and Pilgrim, the Agency paid Pilgrim (not Basic) based on actual care days and, as the Agency does with all of its fee-for-service providers, subjected all of Pilgrim’s invoices to the Agency’s monthly Care-Day Reconciliation Process before making any monthly payments to Pilgrim.”

Auditor Comment: DHS paid Pilgrim for the provision of social services to clients that Pilgrim had referred to Basic Housing but for whom Basic Housing did not provide the indicated services. Accordingly, the overpayment should be recouped.

23. Implement stronger controls to ensure that it only pays for services actually provided when third-party vendors are involved.

DHS Response: DHS's response to this recommendation did not address the need for stronger controls in this area.

Robert V. Hess
Commissioner

Steve Pock
Deputy Commissioner
Fiscal and Procurement
Operations

Lula Urquhart
Assistant Commissioner
Budget and Audit
lurquhar@dhs.nyc.gov

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June 24, 2009

John Graham, Deputy Comptroller,
Audits, Accountancy & Contracts
NYC Office of the Comptroller
Executive Offices
1 Center Street
New York, N.Y 10007

**Re: Draft Audit Report on the Contract of BASIC Housing, Inc., with the
Department of Homeless Services to Provide Shelter and Support Services
ME09-088A**

Dear Mr. Graham:

The Department of Homeless Services (DHS) appreciates the opportunity to respond to your office's draft audit report. DHS and Basic Housing, Inc. have met and carefully reviewed the report's findings and recommendations and we include Basic Housing's response to the recommendations. Corrective actions will be implemented as detailed in the attached Audit Implementation Plans.

As agreed, by tomorrow at noon, DHS and BASIC Housing, Inc. will submit their respective narratives responses. Together, the responses to the recommendations and the narratives comprise the responses to the audit.

Sincerely,



Michael King
Audit Director

Attachments

c: Robert Hess, Commissioner
Raul Russi, Executive Director, BASIC Housing, Inc.,
Fran Winter, First Deputy Commissioner
Steve Pock, Deputy Commissioner, Fiscal and Procurement Operations
Michele M. Ovesey, General Counsel
Anne Heller, Deputy Commissioner, Family Services
Julia Moten, Associate Commissioner, Transitional Services
Lula Urquhart, Assistant Commissioner, Budget & Audit
Ron Abad, Assistant Commissioner, Planning & Admin, Family Services
Donna Brown, Director, Family Budget
Trevor Jardine, Program Administrator, Family Services

Jim Bradley, Audit Manager, NYC Office of the Comptroller
Andrea Glick, First Deputy Director, Mayor's Office of Contracts
George Davis, Deputy Director of Operations, Mayor's Office of Operations
Yuriy Pawluk, Senior Advisor, Office of Deputy Mayor for Health and Human Services
Peggy Rose Viera, Auditor, Audit Services Operations, Mayor's Office of Operations

Department of Homeless Services

PAGE 1 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A**RECOMMENDATION WHICH THE AGENCY AGREES WITH
AND WILL IMPLEMENT**

Recommendation #2: DHS should ensure that BASIC Housing provides all required documentation.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

DHS (or the "Agency") is developing an Annual Contractor Checklist, effective FY 10, to ensure that all of its shelter providers, including Basic Housing, Inc. ("Basic") provides all required documentation as per the contract between Basic and DHS (the "Contract").

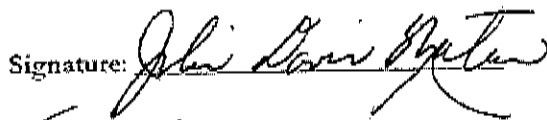
IMPLEMENTATION DATE

July 1, 2009 (FY 10)

RESPONSIBILITY CENTER

Families and Budget/Audit

Signature:



Print Name:

Julia Davis Muten

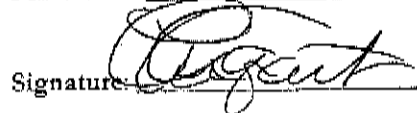
Date

6/24/09

Print Title:

Associate Commissioner

Signature:



Print Name:

Lula Urguhart

Date

6/24/09

Print Title:

Assistant Commissioner

Department of Homeless Services

PAGE 2 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DIVISION: Bureau of Management Audit

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY AGREES WITH
AND WILL IMPLEMENT**

Recommendation #4: DHS should ensure that BASIC Housing complies with the hiring commitment provisions of the contract.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

DHS is developing an Annual Contractor Checklist, effective FY 10, to ensure that Basic provides all documentation, including proof of compliance with the hiring commitment provision, as per the Contract

IMPLEMENTATION DATE

July 1, 2009 (FY 10)

RESPONSIBILITY CENTER

Families

Signature: *Juli Davis*
Print Name: Juli Davis

6/24/09
Date

Print Title: Associate Commissioner

Department of Homeless Services

PAGE 3 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
AGREES WITH IN PART AND WILL IMPLEMENT IN PART**

Recommendation #7: DHS should review BASIC Housing close-out request for Fiscal Year 2008 and make any necessary adjustment to ensure that it includes only those costs incurred under the contract. Adjustments should include the following items identified in this report:

- Deduct \$375,661 in reported expenditures for which BASIC Housing did not have supporting documentation.
- Deduct \$45,279 representing payments made by BASIC Housing that were not related to its operations.
- Deduct a portion of the \$138,641 in costs that should have been allocated to the affiliate.
- Deduct from the amount paid to BASIC Housing an amount equal to Pilgrim's payment of \$730,981 to BASIC Housing that covers overhead and other expenses DHS already paid to BASIC Housing for services provided under the contract.

RESPONSE TO RECOMMENDATION

DHS will assess accuracy and completeness of costs and documentation with respect to Basic's Fiscal 2008 close-out request; however, the Agency disagrees with the estimates contained in Recommendation #7 because the findings of the Draft Audit Report (the "Draft") upon which Recommendation #7 is based are erroneous. The Draft identifies approximately \$1.3 million in questioned costs. \$559,981 of this amount was premised on the auditors' review of Basic's February 2008 disbursements and four line-item expenditures for FY 08. The remaining \$730,981 was what DHS paid Pilgrim Realty ("Pilgrim") for 57 cluster units in FY 08. However, in calculating the total amount of questioned costs, the auditors: (1) improperly relied on preliminary numbers in Basic's preliminary close-out request for Cluster I instead of the final FY 08 Close-Out Statement (the "Official Close-Out") that was subsequently approved by DHS; (2) the auditors' calculation erroneously included a portion of the Agency's fee-for-service payments to Basic for Cluster II¹ units even though these payments were based on actual care days and therefore not subject to close-out; and (3) the auditors included in their calculation DHS' fee-for-service payments to Pilgrim even though the arrangement was wholly outside the Contract. Moreover, since payments to Pilgrim were premised on actual care days, they, too, were not subject to close-out. As a result of these estimates, the amount of questioned costs cited in the Draft Audit Report is significantly inflated.

Based on DHS' review of Basic's February 2008 disbursements and the four line-item expenditures for FY 08 (based on the Official Close-Out), DHS is disallowing \$132,963 in Cluster I costs. This amount may change based on additional documentation Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

The Draft also concludes that Basic transferred funds into and out of its affiliate's bank accounts with inadequate supporting documentation or explanation and, as a result, a portion of the City funds provided to Basic under the Contract "may have

¹ Above and hereinafter, all capitalized terms are as defined in DHS' Responses to the Draft Audit Report.

Recommendation #7 - continued

been used by the affiliate for its operation." (Draft on page 12) The auditors further conclude that "[b]y not systematically examining [Basic's] bank transactions and related invoices, DHS allowed" this to occur and recommended that DHS conduct a "periodic examination of [Basic's] books and accounting records to ensure that all funds are exclusively used for [Basic's] contract operations." (Draft, Rec. No. 8 on page 13) It should be noted that of the \$138,641 cited in the Draft as the "amount to be allocated between Basic Housing and Basics, Inc." (Draft Table II, Column E, on page 11), DHS, after reviewing the documentation provided by Basic, has determined that only \$53,859 should be disallowed.² (DHS' Responses, Exhibit 3, DHS Table II, Column F)

The Draft fails to note that the Contract allows Basic to use up to 8.5 percent of its annual budget to pay for overhead expenses. This is a standard provision in all DHS' contracts with its shelter providers and it allows providers to transfer funds to an affiliate (or parent organization) for the provision of appropriate support services. Also, DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate. Further, whether a provider appropriately used City funds can be comprehensively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

Notwithstanding the above, as part of the Agency's corrective action plan, DHS Audit Services will review the appropriateness of the FY 08 transfer of funds between Basic and its affiliate to determine whether additional funds should be recouped. (See Draft, Rec. No. 9 on page 24) Also, DHS will retain a CPA firm to conduct an audit in FY 10 of Basic's FY 09 operating funds, to determine whether they were appropriately expended and administered.

The Draft further concludes that DHS should disallow all or a portion of the \$730,981 that Pilgrim paid Basic. However, this arrangement was separate and apart from the Contract and for units not covered by the Contract. For this reason, DHS is not disallowing any portion of this amount.³ The only way to determine whether any portion of the \$730,981 should be disallowed would be to audit *all* expenditures under Basic's FY 08 Cluster I Contract and disallow expenditures.⁴ Thus, as part of the Agency's corrective action plan, DHS Audit Services will review the appropriateness of Basic's FY 08 Cluster I expenditures and determine whether additional funds should be recouped.

IMPLEMENTATION DATE

January 2010

² Here again, DHS' allowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

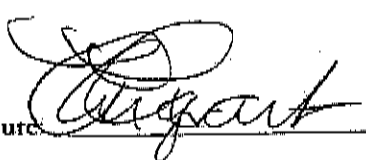
³ The Draft also erroneously states that after the auditors brought the Pilgrim issue to DHS' attention, the Agency "began to directly refer these Pilgrim clients to [Basic]." (Draft on page 12) It was solely as a result of the Agency's desire to consolidate Basic's services under a single contract that, pursuant to the Second Amendment, the 57 Pilgrim units were added to Cluster II.

⁴ Of the \$730,981, the Draft cites only "\$8,933 in security services provided in February 2008 that should have been allocated to Pilgrim clients . . ." (Draft on page 12)

Recommendation #7 - continued

RESPONSIBILITY CENTER

Budget/Audit

Signature: 

Print Name: Lula Urguhart

Print Title: Assistant Commissioner

6/24/09
Date

Department of Homeless Services

PAGE 6 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
AGREES WITH IN PART AND WILL IMPLEMENT IN PART**

Recommendation #8: DHS should conduct a periodic examination of BASIC Housing books and accounting records to ensure that all funds are exclusively used for BASIC Housing's contract operations and ensure that BASIC Housing develops appropriate cost-allocation plans relative to its affiliate and to other vendors or programs served by BASIC Housing.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Draft concludes that Basic transferred funds into and out of its affiliate's bank accounts with inadequate supporting documentation or explanation and, as a result, a portion of the City funds provided to Basic under the Contract "may have been used by the affiliate for its operation." (Draft on page 12) The auditors further conclude that "[b]y not systematically examining [Basic's] bank transactions and related invoices, DHS allowed" this to occur and recommended that DHS conduct a "periodic examination of [Basic's] books and accounting records to ensure that all funds are exclusively used for [Basic's] contract operations." (Draft, Rec. No. 8 on page 13) It should be noted that of the \$138,641 cited in the Draft as the "amount to be allocated between Basic Housing and Basics, Inc." (Draft Table II, Column E at page 11), DHS, after reviewing the documentation provided by Basic, has determined that only \$53,859 should be disallowed.⁵ (DHS Response, Exhibit 3, DHS Table II, Column E) It also is important to note that the Contract allows Basic to use up to 8.5 percent of its annual budget to pay for overhead expenses. This is a standard provision in all DHS' contracts with its shelter providers and it allows providers to transfer funds to an affiliate (or parent organization) for the provision of appropriate support services. Also, DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate. Further, whether a provider appropriately used City funds can be comprehensively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

DHS already utilizes several tools to monitor a shelter provider's compliance with contract provisions and to ensure that the provider's use of City funds is appropriately expended. DHS retains contracts with six independent accounting firms ("CPA firms") to conduct audits of one-third of the Agency's human services contracts every year. In the event issues arise concerning a provider in a year not subject to automatic audit, DHS' internal auditors or one of the Agency's CPA firms will conduct a special audit of the provider's operations that are of concern. DHS Audit Services unit also conducts "expenditure reviews" each year. The auditors randomly select a provider and examine documentation concerning all expenditures incurred by that provider during a randomly selected month within the past two years. In addition, all contract providers are required to submit certified financial statements and A-133 audits (where applicable, under federal Office of Management and Budget (OMB) Circular) on an annual basis. The internal and CPA audits, special audits as necessary, and expenditure reviews, coupled with the fiscal year-end close-out process for line-item budgeted contracts and the Care-Day Reconciliation Process for fee-for-service providers, provide more than adequate monitoring of shelter providers' use of City funds. Further, whether

⁵ Here again, DHS' allowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

Department of Homeless Services

Audit Implementation Plan

PAGE 7 OF 20

Recommendation #8 - continued

a provider appropriately used City funds can be comprehensively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

Notwithstanding the above, DHS will further examine these issues in the context of the upcoming independent accounting firm audit covering Basic's use of FY 09 contract funds.

IMPLEMENTATION DATE

January 2010

RESPONSIBILITY CENTER

Families and Budget/Audit

Signature: [Signature]
Lisa Davis Mott
 Print Name:

6/24/09
 Date

Print Title: Associate Commissioner

Signature: [Signature]

Lula Urquhart
 Print Name:

6/24/09
 Date

Print Title: Asst Commissioner

Department of Homeless Services

PAGE 8 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY AGREES WITH IN PART
AND WILL IMPLEMENT IN PART**

Recommendation #9: DHS should review the appropriateness of the transfers of funds between BASIC Housing and BASICS, Inc., to determine whether additional funds should be recouped from BASIC Housing.

RESPONSE TO RECOMMENDATION

The Draft concludes that Basic transferred funds into and out of its affiliate's bank accounts with inadequate supporting documentation or explanation and, as a result, a portion of the City funds provided to Basic under the Contract "may have been used by the affiliate for its operation." (12) The auditors further conclude that "[b]y not systematically examining [Basic's] bank transactions and related invoices, DHS allowed" this to occur and recommended that DHS conduct a "periodic examination of [Basic's] books and accounting records to ensure that all funds are exclusively used for [Basic's] contract operations." (Draft, Rec. No. 8 on page 13) It should be noted that of the \$138,641 cited in the Draft as the "amount to be allocated between Basic Housing and Basics, Inc." (Draft Table II, Column E on page 11), DHS, after reviewing the documentation provided by Basic, has determined that only \$53,859 should be disallowed.⁶ (DHS Response, Exhibit 3, DHS Table II, Column F) It also is important to note that the Contract allows Basic to use up to 8.5 percent of its annual budget to pay for overhead expenses. This is a standard provision in all DHS' contracts with its shelter providers and it allows providers to transfer funds to an affiliate (or parent organization) for the provision of appropriate support services. Also, DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate. Further, whether a provider appropriately used City funds can be comprehensively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

DHS already utilizes several tools to monitor a shelter provider's compliance with contract provisions and to ensure that the provider's use of City funds is appropriately expended. DHS retains contracts with six independent accounting firms ("CPA firms") to conduct audits of one-third of the Agency's human services contracts every year. In the event issues arise concerning a provider in a year not subject to automatic audit, DHS' internal auditors or one of the Agency's CPA firms will conduct a special audit of the provider's operations that are of concern. DHS Audit Services unit also conducts "expenditure reviews" each year. The auditors randomly select a provider and examine documentation concerning all expenditures incurred by that provider during a randomly selected month within the past two years. In addition, all contract providers are required to submit certified financial statements and A-133 audits (where applicable, under federal Office of Management and Budget (OMB) Circular) on an annual basis. The internal and CPA audits, special audits as necessary, and expenditure reviews, coupled with the fiscal year-end close-out process for line-item budgeted contracts and the Care-Day Reconciliation Process for fee-for-service providers, provide more than adequate monitoring of shelter providers' use of City funds. Further, whether

⁶ Here again, DHS' allowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

Department of Homeless Services

Audit Implementation Plan

PAGE 9 OF 20

Recommendation #9 - continued

a provider appropriately used City funds can be comprehensively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

Notwithstanding the above, DHS will further examine these issues in the context of the upcoming independent accounting firm audit covering Basic's use of FY 09 contract funds.

IMPLEMENTATION DATE

January 2010

RESPONSIBILITY CENTER

Families and Budget/Audit

Signature: _____

Print Name: _____

Print Title: _____

Signature: _____

Print Name: _____

Print Title: _____

Date

Date

Department of Homeless Services

PAGE 10 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DIVISION: Bureau of Management Audit

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY AGREES WITH IN PART
AND IMPLEMENTS PURSUANT TO LONGSTANDING POLICIES AND PRACTICES**

Recommendation #12: DHS should ensure that BASIC Housing has proper internal controls in relation to the reporting of expenditures under the contract.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Recommendation #12 is based on the Draft's finding that Basic had failed to comply with certain accounting provisions of the contract and, consequently, prepared unreliable financial reports with insufficient supporting documentation or justifications.
(14)

The Draft states that the auditors' "review of the financial records revealed that there was a lack of reconciliation at [Basic] to ensure the accuracy of the expenses reported on the close-out request" and that "the invoices, general ledger, and close-out request amounts did not reconcile, as shown in Table III." (Draft on pages 14-15) As already noted, the "close-out request" was preliminary to the final FY 08 Official Close-Out. Therefore, the numbers in Table III are not final because they are based on incorrect *preliminary* numbers. The amounts reflected in Table III also erroneously include amounts relating to Cluster II.

The Draft further states that the auditors "found no evidence that DHS questioned the validity and reliability of these expenses." (Draft on page 15) As noted above, DHS cannot conclusively audit these expenses until after they have been paid and closed out at the end of the fiscal year.

DHS will continue to monitor its providers' accounting practices through internal Agency and CPA audits. In accordance with the Draft's recommendation that DHS ensure that Basic has proper internal controls in relation to the reporting of expenses under the Contract (Draft, Rec. No. 12 on page 17), DHS will retain a CPA firm to conduct an audit in FY 10 of Basic's FY 09 operating funds to determine whether they were appropriately expended and administered.

IMPLEMENTATION DATE

January 2010

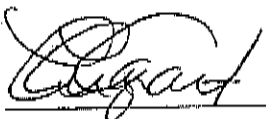
Department of Homeless Services

PAGE 11 OF 20

Recommendation #12 - continued

RESPONSIBILITY CENTER

Budget/Audit

Signature: 

Lula Urguhart
Print Name:

6/24/09
Date

Print Title: Asst Commissioner

Department of Homeless Services

PAGE 12 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A**RECOMMENDATION WHICH THE AGENCY
DISAGREES WITH AND WILL NOT IMPLEMENT**

Recommendation #13: DHS should ensure that it does not make monthly payments to BASIC Housing if the contractor fails to submit monthly expenditures reports and year-end close-out requests in a timely manner as required by the contract.

RESPONSE TO RECOMMENDATION

The Draft states that DHS' close-out procedures required submission of a close-out statement by September 1, 2008, but the auditors did not receive the preliminary close-out request from Basic until March 4, 2009 and it was not approved by DHS until March 27, 2009. (Draft on page 16) The Draft further concludes that "because of a lack of timely oversight by DHS," Basic failed to submit its close-out request in a timely manner and recommends that the Agency should ensure that it does not make monthly payments to Basic if it fails to submit monthly expenditure reports and year-end close-out requests in a timely manner "as required by the contract." (Draft, Rec. 13 on page 17)

The close-out statement that Basic gave DHS on January 29, 2009 contained preliminary estimates. On March 4, 2009, DHS received a completed close-out statement which it reviewed and approved on March 27, 2009. As DHS explained at a preliminary conference prior to the Exit Conference, the close-out process is initiated by the provider's submission of close-out documents to DHS. The Agency reviews the documentation and returns it to the provider if revision is required. Depending on the complexity and size of the contract, this can be a lengthy process. The Basic Contract at issue here, with its combination of line-item and fee-for-service payment mechanisms, is particularly complex and, as a result, the close-out process required an unusually long time to complete. Additionally, DHS' providers cannot close out their contracts with the Agency until *after* they close out their own books and records.

Finally, DHS must exercise prudence with respect to withholding payments to its shelter providers, and considers the nature and significance of contractual compliance matters as well as impacts on the family shelter system. Specifically, the Agency does not interpret any provision in the Contract to mean that under all circumstances, DHS must withhold payment of advances or monthly bills submitted after September 1 in the absence of a final close-out from the prior fiscal year. Were that the case, the family shelter system would be negatively impacted upon depletion of cash flow or other cash reserves that enable the provider to continue providing services while close-outs are being processed.

Audit Implementation Plan

Department of Homeless Services

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Recommendation #13 - continued

RESPONSIBILITY CENTER

Finance

Signature: _____

Erin N. Villari

Erin N. Villari

Print Name: _____

6/24/09
Date

Print Title: _____

Assistant Commissioner

Department of Homeless Services

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RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
IMPLEMENTS PURSUANT TO ITS LONG-STANDING
POLICIES AND PROCEDURES**

Recommendation #14: DHS should consistently reconcile invoices against CTS, resolve any discrepancies and recoup funds as necessary.

RESPONSE TO RECOMMENDATION

Based upon a sampling of payments made on invoices submitted to the Agency, the auditors identified "discrepancies not resolved by DHS" totaling \$36,075. (Refer to Draft, page 18 and Table IV on page 19) Accordingly, the Draft concluded that DHS "did not consistently verify the accuracy of the client invoices and determine the discrepancies to be recouped from the provider's subsequent payments." (*Id.* on pages 18-19) The Draft therefore recommends that DHS "consistently reconcile invoices against CTS, resolve any discrepancies, and recoup funds as necessary" and "[e]nsure that accurate client information is maintained in CTS." (*Id.*, Rec. Nos. 14 and 15, respectively, on page 19)

At the Exit Conference, DHS provided the auditors with documentation indicating that they had misidentified codes in CTS. For example, the auditors misidentified a CTS code indicating a change in family composition as the family's exit from shelter and recorded this "discrepancy" on Table IV. This single misidentified CTS code accounted for \$32,130 of the \$36,075 on Table IV. DHS was able to account for all of the \$36,075 as resulting from misidentification of CTS codes and adjustments handled in the final billings.

In addition, under DHS' Care-Day Reconciliation Process, described in its Response, HERO's Vacancy Control Unit contacts every shelter to verify client arrivals and departures as part of a *daily* reconciliation of shelter units and CTS data. This is accomplished by using a combination of CTS automated reports, non-automated reports and communications with shelter staff in order to compare and verify current data in CTS. DHS reconciles all certified monthly invoices for Family Shelters against care day records maintained in CTS.

Reconciliation and payment of claims from fee-for-service providers is accomplished using CTS and the DHS Billing System. The Billing System, which is managed by the Agency's Office of Information Technology, calculates what is owed to each provider based on lodging and rate information maintained in CTS. The Financial Management System (FMS) is used to pay providers through electronic funds transfers (EFT), with payments issued by the Department of Finance to the provider's bank account.

Department of Homeless Services

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Recommendation #14 - continued

Shelter providers are required to designate a financial officer or agent thereof to certify and attest to the accuracy of their monthly billings and all associated documents. Each invoice submitted to DHS must include a statement of certification and the signature of the financial officer or his/her agent. Upon receipt of an invoice, a DHS supervisor or designee will review the submission for completeness regarding required signatures for certification. If the invoice is incomplete due to missing certification and/or required signatures, the supervisor will immediately contact the provider to resend a corrected invoice.

Once it is determined that the invoice contains the required certification, Agency staff generates a Pre Payment Register from the Billing System for the same billing period indicated on the invoice. The Pre-Payment Register is an automated report that lists the shelter's lodging history based on CTS records. DHS staff compares the Register line by line against the shelter invoice and annotates the invoice for any inconsistencies in dates of residency, family composition, case numbers, unit occupancy and daily rate. Agency staff investigates all inconsistencies uncovered as a result of this comparison; the type of discrepancy determines the action the Agency must take to resolve it. All discrepancies are reconciled in favor of CTS unless the provider submits evidence (e.g., client sign in/out logs) demonstrating that CTS is incorrect.

After DHS staff completes the comparison, confirms any inconsistencies and documents any updates recommended to the CTS Unit, the entire invoice folder is submitted to a senior supervisor for review. After reviewing the invoice folder for completeness, the senior supervisor approves the invoice and submits the invoice folder to the supervisor for processing of payment.

DHS staff also detects and recoups overpayments to shelter providers paid through the Billing System. The two major causes of overpayments are changes in lodging history (resulting from HERO's ongoing CTS updates) and retroactive rate reductions. If the shelter provider does not challenge an overpayment or cannot provide documentation to reverse DHS' determination that an overpayment occurred, the Agency takes steps toward recoupment.

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER

Finance

Signature: _____

Print Name: _____

Print Title: _____

Date

Department of Homeless Services

PAGE 16 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DIVISION: Bureau of Management Audit

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
IMPLEMENTS PURSUANT TO ITS LONGSTANDING
POLICIES AND PROCEDURES**

Recommendation #15: DHS should ensure that accurate client information is maintained in CTS.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

As explained in DHS' Response to Recommendation No. 14, above, DHS ensures that client information is maintained in CTS by conducting a daily reconciliation of shelter units and CTS data as part of the Agency's Care-Day Reconciliation Process.

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER

Families

Signature: *Talita Davis Muten*

Print Name: Talita Davis Muten

6/24/09
Date

Print Title: Associate Commissioner

Department of Homeless Services

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RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDIVISION: Bureau of Management AuditDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY AGREES WITH IN PART
AND IMPLEMENTS PURSUANT TO LONG-STANDING
POLICIES AND PROCEDURES**

Recommendation #21: DHS should require BASIC Housing to provide a corrective action plan to correct the problems noted in this audit or close out the contract.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Agency's Family Services Division conducts semi-annual evaluations of its shelter providers, including Basic, consisting of unannounced arrival at the site for a multi-day review, which includes a physical plant inspection of randomly selected apartments, a social services evaluation based on a sampling of client case records, and the shelter's success in meeting its move-out targets. The results of the evaluation, including a discussion of deficiencies, are recorded in a report called the "Monitoring Tool." The provider has 30 days from its receipt of the report to submit a corrective action plan to DHS. The Agency also evaluates providers' performance through Vendex checks, semi-annual routine site review inspections ("RSRI") of shelters' physical conditions, and the Performance Incentive Program ("PIP"), an annual performance evaluation program which is designed to reward providers that successfully and efficiently place families into permanent housing and reduce families' length of stay in shelter. Under PIP in FY 08, DHS increased or decreased the original daily rate by up to 10 percent for the provider based on the provider's performance.

The Draft's findings relating to Basic's programmatic operations, primarily concerned compliance with record-keeping requirements and timely completion of forms regarding client case records. DHS utilizes these same performance measures, among many others, in its semi-annual evaluation of all providers. While the Agency noted deficiencies similar to those identified by the auditors in its programmatic evaluation of Basic for the first half of FY 09, in its corrective action plan, Basic demonstrated its ongoing commitment to improve its performance. Moreover, on May 18, 2009, DHS conducted a re-training of Basic staff on what information must be timely documented in the client's case record and what documents must be filled out and made a part of the case record.

Notwithstanding these issues, it is critical to note that during the period July 2008-March 2009, Basic achieved 154 percent of its move-out target and now ranks as one of DHS' top providers in helping clients to exit shelter for homes of their own.

Department of Homeless Services

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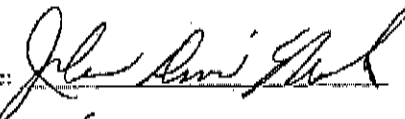
Recommendation #21 - continued

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER

Families

Signature: 

Julie Davis, MEd
Print Name:

6/24/09
Date

Print Title: Associate Commissioner

Department of Homeless Services

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RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DIVISION: Bureau of Management Audit

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
DISAGREES WITH AND WILL NOT IMPLEMENT**

Recommendation #22: DHS should recoup the overpayment of \$1,789 made to Pilgrim for the December 2007 and January 2008 invoices.

RESPONSE TO RECOMMENDATION

The auditors examined the December 2007 and January 2008 invoices submitted by Pilgrim to DHS for payment and compared them to the corresponding invoices that Basic sent to Pilgrim. Since Basic's invoices did not match Pilgrim's, the Draft concludes that DHS paid \$1,789 "for services that Basic did not reportedly provide." (Draft on page 24) However, under the arrangement between DHS and Pilgrim, the Agency paid Pilgrim (not Basic) based on actual care days and, as the Agency does with all of its fee-for-service providers, subjected all of Pilgrim's invoices to the Agency's monthly Care-Day Reconciliation Process before making any monthly payments to Pilgrim.

RESPONSIBILITY CENTER

Finance

Signature: _____

Erin N. Villarini

Print Name:

Date

Print Title:

Assistant Commissioner

Department of Homeless Services

PAGE 20 OF 20

RESPONSE DATE: June 24, 2009

AUDIT TITLE: Contract of BASIC Housing, Inc., with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DIVISION: Bureau of Management Audit

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME-09-008A

**RECOMMENDATION WHICH THE AGENCY
IMPLEMENTS PURSUANT TO ITS LONG-STANDING
POLICIES AND PROCEDURES**

Recommendation #23: DHS should implement stronger controls to ensure that it only pays for services actually provided when third-party vendors are involved.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

This recommendation is based on the auditors' examination of the December 2007 and January 2008 invoices submitted by Pilgrim to DHS for payment and comparison of them to the corresponding invoices that Basic sent to Pilgrim. Since Basic's invoices did not match Pilgrim's, the Draft concludes that DHS paid \$1,789 "for services that Basic did not reportedly provide." (Draft on page 24) However, under the arrangement between DHS and Pilgrim, the Agency paid Pilgrim (not Basic) based on actual care days and, as the Agency does with all of its fee-for-service providers, subjected all of Pilgrim's invoices to the Agency's monthly Care-Day Reconciliation Process before making any monthly payments to Pilgrim.

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER

Budget/Audit

Signature: 

Print Name: Lila Urguhart

Print Title: Assistant Commissioner

6/24/09
Date

Basic Housing

PAGE 1 OF 16

RESPONSE DATE: June 17, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

Recommendation 1- Obtain and maintain the required documentation as per the contract, including:
Fidelity bond coverage for all employees who are authorized to receive, handle or disburse the funds received under the contract.

RESPONSE TO RECOMMENDATION

Basic Housing intends to obtain Fidelity bond coverage for all employees who are authorized to receive, handle or disburse the funds received under the contract.

TARGET IMPLEMENTATION DATE

July 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo

Print Name:

June 17, 2009

Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 2 OF 16

RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 1- Obtain and maintain the required documentation as per the contract, including:
Valid bank authorization forms from all banks used to deposit DHS funds.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Basic Housing has obtained valid bank authorization forms from all banks used to deposit DHS funds.

IMPLEMENTATION DATE

June 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 15, 2009
Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 3 OF 16RESPONSE DATE: June 15, 2009AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME09-088A**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 1- Obtain and maintain the required documentation as per the contract, including:
Current inventory records for all furnishings and equipment.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Basic Housing has current inventory records for all furnishings and equipment and will present them to DHS annually.

IMPLEMENTATION DATE

March 31, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montaño

Print Name:

June 15, 2009

Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 4 OF 16

RESPONSE DATE: June 17, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

Recommendation 3- Comply with the hiring-commitment provision of the contract to ensure to ensure that formerly homeless clients are given opportunity for employment.

RESPONSE TO RECOMMENDATION

Basic Housing intends to use its best efforts to comply with the hiring-commitment provision of the contract to ensure that formerly homeless clients are given opportunity for employment. If it becomes not possible to meet the goal totally, Basic Housing will ask for a partial waiver.

TARGET IMPLEMENTATION DATE

On-going

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 17, 2009
Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 5 OF 16

RESPONSE DATE: June 17, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

Recommendation 5- Implement an adequate cost-allocation plan to properly report expenses related to its affiliate as well as those related to services it provides to other vendors or programs.

RESPONSE TO RECOMMENDATION

Basic Housing intends to implement an adequate cost-allocation plan to properly report expenses related to its affiliate as well as those related to services it provides to other vendors or programs. The plan will clearly explain the methodology used to allocate these expenses.

TARGET IMPLEMENTATION DATE

July 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 17, 2009
Date

Print Title: Chief Fiscal Officer

Audit Implementation Plan Form D

Basic Housing

PAGE 6 OF 16

RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**D. RECOMMENDATION WHICH THE AGENCY
AGREES OR DISAGREES WITH AND WILL NOT IMPLEMENT (circle one)**

Recommendation 6 – Reexamine its Fiscal Year 2008 close-out request and identify and remove any expenses not related to the contract in order to accurately report all expenses incurred under the contract. Ensure that future close-out requests include only those expenses incurred in relation to the service of the contract.

**RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)**

Basic Housing believes that all expenses approved by DHS in its Fiscal Year 2008 closeout were related to the contract and are reported accurately. DHS has given us the final closeout, and Basic Housing is in agreement with it.

Cluster I was an expense line budget contract. Cluster II was fee for service, and Pilgrim was a fee for service arrangement between Basic Housing and Pilgrim. The Fiscal Year 2008 expense closeout was for the Cluster I contract.

Basic Housing will ensure that future close-out requests include only those expenses that were incurred in relation to the service of the contract.

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 15, 2009
Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 7 OF 16RESPONSE DATE: June 17, 2009AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME09-088A

D. RECOMMENDATION WHICH THE AGENCY
AGREES OR DISAGREES WITH AND WILL NOT IMPLEMENT (circle one)

Recommendation 10 – Establish and implement controls over its financial operations to ensure that financial records reconcile and financial information is reliable.

RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)

Basic Housing has established and implemented controls over its financial operations to ensure that financial records reconcile and financial information is reliable. Basic Housing's financial management reviews the journal entries and the account analyses done by the accountants. In addition, the supporting documentation of the financial statements is checked by financial management.

The Comptroller's office audited Basic Housing before it closed out its fiscal year so the audit team may have found some expenses without supporting documentation that was later found in its yearly closeout process.

Basic Housing will scrutinize its current procedures looking for ways to improve its reconciliation process and to strengthen the reliability of its financial information.

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 17, 2009
Date

Basic Housing

PAGE 8 OF 16RESPONSE DATE: June 15, 2009AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME09-088A

D. RECOMMENDATION WHICH THE AGENCY
AGREES OR DISAGREES WITH AND WILL NOT IMPLEMENT (circle one)

Recommendation 10 – Establish and implement controls over its financial operations to ensure that expenses incurred pursuant to the contract are properly supported.

RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)

Basic Housing has established and implemented controls over its financial operations to ensure that Expenses incurred pursuant to the contract are properly supported.

The Comptroller's office audited Basic Housing before it closed out its fiscal year so the audit team may have found some expenses without supporting documentation that was later found in its yearly closeout process.

Basic Housing will enact new procedures to strengthen its process of gathering and filing supporting documentation.

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 15, 2009
Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 9 OF 16

RESPONSE DATE: June 17, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

Recommendation 10- Establish and implement controls over its financial operations to ensure that its year-end closeout request is submitted in a timely manner.

RESPONSE TO RECOMMENDATION

Basic Housing intends to establish and implement controls over its financial operations to ensure that its year-end closeout request is submitted in a timely manner.

TARGET IMPLEMENTATION DATE

September 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 17, 2009
Date

Print Title: Chief Fiscal Officer

Basic Housing

PAGE 10 OF 16

RESPONSE DATE: June 17, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**B. RECOMMENDATION WHICH THE AGENCY
HAS PARTIALLY IMPLEMENTED**

Recommendation 10- Establish and implement controls over its financial operations to ensure that there is a proper segregation of duties in the accounting unit over the handling, reporting, and reconciling of transactions.

WHAT HAS BEEN IMPLEMENTED?

Basic Housing has established and implemented controls over its financial operations to ensure that there is a proper segregation of duties in the accounting unit over the handling, reporting, and reconciling of transactions. Basic Housing has already segregated the duties of handling the mail (Accounting Supervisor), making bank deposits (the CFO) and reconciling bank statements (Accountants). We will now segregate the duties of making journal entries and transferring funds between bank accounts.

WHAT HAS TO BE IMPLEMENTED?

The Finance Committee will review all transfers of funds.

EXPECTED IMPLEMENTATION DATE

July 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 17, 2009
Date

Print Title: Chief Fiscal Officer

Audit Implementation Plan Form A

Basic Housing

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RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 11- Identify all 1099-reportable entities and issue 1099-MISC forms for income tax purposes.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Basic Housing has identified all 1099-reportable entities and issue 1099-MISC forms for income tax purposes.

IMPLEMENTATION DATE

May 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Carlos Montalvo

Carlos Montalvo
Print Name:

June 15, 2009
Date

Print Title: Chief Fiscal Officer

Audit Implementation Plan Form A

Basic Housing

PAGE 12 OF 16

RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 16- Ensure that client files contain documentation and evidence of the provision of all required assistance to clients to address their needs.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009 Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.

IMPLEMENTATION DATE

April 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Pamela Mattel (DD)

Pamela Mattel
Print Name:

June 15, 2009
Date

Print Title: Deputy Executive Director

Basic Housing

PAGE 13 OF 16

RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 17- Ensure that caseworkers hold biweekly meetings with clients throughout their stay in the program and that biweekly review forms are reviewed by supervisors.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Caseworkers schedule biweekly meetings with clients. Clients may be absent for their scheduled appointments. The caseworker leaves a note under the door indicating that the caseworker was there and that the family should contact the case worker. This note is filed in the chart to verify attempts. Supervisors may miss signing every ILP during the course of the family's stay; however, to insure that caseworkers are properly serving clients supervisory oversight is conducted through multiple means. Family's progress is reviewed through a) HRA status reports, b) on a weekly basis senior supervisory staff employ the use of an agency specific tracking form that reviews every family's progress, c) as needed case conferences are scheduled that includes the participation of the client, case workers, senior supervisory staff, and on occasion DHS staff, d) caseworkers submit monthly reports that indicate family progress, and e) supervisors immediately notify DHS of clients that are noncompliant or have special needs.

Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009 Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.

IMPLEMENTATION DATE

April 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Pamela Mattel (HQS)

Pamela Mattel

Print Name:

Print Title: Deputy Executive Director

June 15, 2009

Date

Basic Housing

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RESPONSE DATE: June 15, 2009

AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support Services

AUDITING AGENCY: NYC Comptroller's Office

DRAFT REPORT DATE: June 10, 2009

AUDIT NUMBER: ME09-088A

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation 18- Ensure proper oversight of the intake and case management process in order for client assessment and service planning tasks to be completed in a timely manner.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The CARF (Client Acknowledgement of Responsibility Form) is required to be completed at intake. For all Pilgrim cases acquired by Basic Housing the CARFs were completed prior to Basic Housing taking over the cases. Therefore, any late CARF happened prior to our contractual requirement. Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009 Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.

IMPLEMENTATION DATE

April 1, 2009

RESPONSIBILITY CENTER

Basic Housing

Signature: Pamela Mattel (s.d.s.)

Pamela Mattel
Print Name:

June 15, 2009
Date

Print Title: Deputy Executive Director

Audit Implementation Plan Form D

Basic Housing

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D. RECOMMENDATION WHICH THE AGENCY
AGREES OR DISAGREES WITH AND WILL NOT IMPLEMENT (circle one)

Recommendation 19- Ensure that it provides the necessary assistance to encourage clients to view apartments regularly.

RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)

The CARF (Client Acknowledgement of Responsibility Form) states as part of the family's agreement: "I must view 2 suitable apartments a week or the number that is part of my ILP". Clients must be certified prior to engaging in apartment searches. Therefore not all clients are eligible to look for apartments. Basics has consistently used daily van runs to transport families to search for apartments. While families agree to participate as indicated by their signature on the CARF, there are instances where illness, and other required appointments interfere with daily compliance. The rate of move-outs during the past two years contradicts the report's assertion that families are not being encouraged to search for and obtain permanent housing.

RESPONSIBILITY CENTER

Basic Housing

Signature: Pamela Mattel (NOS)

Pamela Mattel
Print Name:
Print Title: Deputy Executive Director

June 15, 2009
Date

Basic Housing

PAGE 16 OF 16RESPONSE DATE: June 15, 2009AUDIT TITLE: Contract of Basic Housing, Inc. with DHS to Provide Shelter and Support ServicesAUDITING AGENCY: NYC Comptroller's OfficeDRAFT REPORT DATE: June 10, 2009AUDIT NUMBER: ME09-088A

D. RECOMMENDATION WHICH THE AGENCY
AGREES OR ~~DISAGREES WITH~~ AND WILL NOT IMPLEMENT (circle one)

Recommendation 20- Ensure that appropriate employment services are provided to help homeless families achieve self-sufficiency.

RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)

The contract states: "Assistance in securing employment assessment, job training, job placement services, if necessary and appropriate." (Contract – Permanent Housing Preparation Services – II D., page 4) The report states that in 3 cases no employment profiles were completed; however, this not a contractual requirement. The contract is clear that employment search assistance is provided if necessary and appropriate and does not mandate this for every client. Basic Housing employs two job developers to support the families in their job searches.

RESPONSIBILITY CENTER

Basic Housing

Signature: Pamela Mattel (625)

Pamela Mattel

Print Name:

Print Title: Deputy Executive Director

June 15, 2009

Date

**Department of
Homeless Services**

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June 25, 2009

John Graham, Deputy Comptroller,
Audits, Accountancy & Contracts
NYC Office of the Comptroller
Executive Offices
1 Centre Street
New York, N.Y 10007

**Re: Draft Audit Report on the Contract of BASIC Housing, Inc., with the
Department of Homeless Services to Provide Shelter and Support Services
ME 09-088A**

Dear Mr. Graham:

The Department of Homeless Services (DHS) appreciates the opportunity to respond to your Office's draft audit report. Enclosed are DHS' narrative responses to the audit report's draft findings and recommendations addressed to the Agency and Basic Housing, Inc.'s ("Basic") narrative responses and additional documentation pertaining to findings and recommendations directed to Basic.

The Audit Implementation Plans that were submitted to the Comptroller's Office yesterday and the enclosed narrative responses comprise the responses to the draft audit report.

Sincerely,


Michael King
Audit Director

Attachments

- c: Robert V. Hess, Commissioner
- Raul Russi, Executive Director, Basic Housing, Inc.,
- Carlos Montalvo, Chief Financial Officer, Basic Housing, Inc.,
- Pam Mattel, Deputy Executive Director, Basic Housing, Inc.,
- Glenn Bellitto, Director of Finance, Basic Housing, Inc.,
- Fran Winter, First Deputy Commissioner
- Steve Pock, Deputy Commissioner, Fiscal and Procurement Operations
- Michele M. Ovesey, General Counsel

Anne Heller, Deputy Commissioner, Family Services
Julia Moten, Associate Commissioner, Transitional Services
Lula Urquhart, Assistant Commissioner, Budget & Audit
Ron Abad, Assistant Commissioner, Planning & Admin, Family Services
Donna Brown, Director, Family Budget
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Jun Bradley, Audit Manager, NYC Office of the Comptroller
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Andrea Glick, First Deputy Director, Mayor's Office of Contracts
George Davis, Deputy Director of Operations, Mayor's Office of Operations
Yuri Pawluk, Senior Advisor, Office of Deputy Mayor for Health and Human Services
Peggy Rose Viera, Auditor, Audit Services Operations, Mayor's Office of Operations



**DHS' RESPONSES TO DRAFT FINDINGS AND RECOMMENDATIONS
IN THE COMPTROLLER'S DRAFT AUDIT REPORT REGARDING THE
FISCAL YEAR 2008 PERFORMANCE OF BASIC HOUSING, INC.
UNDER ITS CONTRACT WITH DHS**

(ME09-088A)

June 25, 2009

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I. INTRODUCTION

In August 2008, the Comptroller's Office commenced an audit of the contract between Basic Housing, Inc. ("Basic") and the Department of Homeless Services ("DHS" or the "Agency") to provide shelter and social services to homeless families with children (the "Contract"). The Comptroller issued a Preliminary Draft Audit Report on April 23, 2009 (the "Preliminary Draft"). As stated in the Preliminary Draft, the purpose of the audit was to determine whether Basic Housing had complied with certain financial and programmatic provisions of the Contract during Fiscal Year 2008 (July 1, 2007 to June 30, 2008).

Over the course of a four-hour exit conference on May 19, 2009 (the "Exit Conference"), during which the auditors' preliminary draft findings were discussed in detail, representatives from Basic and DHS took issue with a number of preliminary findings. On June 10, 2009, the Comptroller issued a Draft Audit Report (the "Draft"). Although DHS was not a subject of the audit, some of the Draft findings and recommendations were directed to DHS and its monitoring of Basic's performance under the Contract. Therefore, DHS submits the following responses to the Draft's findings and recommendations (the "Responses").

Basic, a neighborhood-based cluster program, is one of DHS' strongest family shelter providers. In FY 09, Basic achieved 154 percent of its target in assisting families to move out of shelter and into permanent housing. The Comptroller's audit of Basic's programmatic operations focused primarily on the program's compliance with record-keeping requirements regarding client case records and noted some deficiencies in this regard. DHS identified similar deficiencies in its bi-annual performance evaluation of Basic and, as a result, provided training to all of Basic's social services staff on the proper maintenance of client case records and the importance of timely documenting the provision of services to clients. Basic also submitted a corrective action plan addressing these issues. As with all of its shelter providers, DHS' will continue to monitor and evaluate Basic's programmatic operations utilizing a comprehensive spectrum of performance measures and will require Basic to submit a corrective action plan to address all areas in need of improvement.

While the Comptroller's audit questioned approximately \$1.3 million of Basic's FY 08 expenditures, following DHS' own review, the Agency determined to disallow significantly less or \$132,963. As explained below, this discrepancy appears to have resulted from the auditors' reliance on a preliminary close-out estimate rather than the final close-out statement approved by DHS and from a misunderstanding of the Contract's dual payment structure.

A number of the auditors' findings and recommendations concerned DHS' monitoring of Basic's compliance with financial provisions of the Contract. DHS has a robust fiscal monitoring program to ensure that its shelter providers appropriately administer and expend City funds. These monitoring tools include internal audits by the Agency's Audit Services unit, external audits by independent accounting firms of one-third of DHS' human services contracts every year, and special audits as necessary to address issues as they arise. DHS also engages in a fiscal year-end close-out process for line-item budgeted contracts and a monthly care-day reconciliation process for its fee-for-service providers. Given the dual payment structure of Basic's Contract in FY 08, DHS used both of these processes in reviewing and making payments to Basic for services it provided under the Contract. In addition, all contract providers are required to submit certified financial statements and A-133 audits (where applicable) on an annual basis.

Although DHS does not have reason to believe that Basic failed to comply with key financial provisions of the Contract, in response to concerns raised by the auditors, and in an abundance of caution, DHS will retain an independent accounting firm to audit Basic's FY 09 operating funds to determine whether they were appropriately expended and administered. In addition, DHS Audit Services will review the appropriateness of Basic's FY 08 line-item expenditures under the Contract to determine whether additional funds should be recouped.

II. ROADMAP TO THE RESPONSES

After reviewing the Draft, it is the Agency's view that the auditors misunderstood the payment structures under the Contract and its subsequent amendments. It appears that the auditors also misunderstood the nature of DHS' non-contracted arrangement with Pilgrim Realty ("Pilgrim") pursuant to which DHS paid Pilgrim for 57 family shelter units on a fee-for-service basis. Pursuant to a separate arrangement between Pilgrim and Basic, Pilgrim paid Basic to provide social services to the families residing in these 57 units. The fee-for-service arrangement between DHS and Pilgrim is wholly separate from and independent of the Contract. As explained during the May 19, 2009 exit conference ("Exit Conference"), this confusion seems to have led to certain preliminary draft findings — and now Draft findings — that DHS believes are incorrect.

Therefore, after providing a summary of DHS' Responses to the Draft's findings and recommendations, we turn to a discussion of DHS' initiative to convert non-contracted, fee-for-service arrangements to contract. (Section IV.A) We summarize the evolution of the Contract from Fiscal Year 2005 through Fiscal Year 2009 as shelter units were added to the Contract on an incremental basis and made subject to two different payment structures: payment according to a "line-item budget" (referred to below as "Cluster I") and payment based solely on care days, *i.e.*, "fee- for-service" (referred to below as "Cluster II"). (Section IV.B) Thereafter, we provide additional background information essential to a complete understanding of DHS' policies and procedures for monitoring shelter providers' use of City funds under both payment structures. (Section IV.C-E) Finally, we discuss in detail each of the Agency's Responses to the Draft's findings and recommendations. (Sections V, VI and VII)

III. SUMMARY OF DHS' RESPONSES TO FINDINGS AND RECOMMENDATIONS

Following are DHS' summary responses to the Draft's key findings and recommendations.

1. The auditors identified "almost \$1.3 million in questioned costs" (Draft on page 10). \$559,581 of this amount was premised on their review of Basic's February 2008 disbursements and four line-item expenditures for FY 08. The remaining \$730,981 was what DHS paid Pilgrim for 57 cluster units in FY 08. However, in calculating the total amount of questioned costs, the auditors improperly relied on *preliminary* numbers in Basic's close-out request for Cluster I instead of the final FY 08 Close-Out Statement that was subsequently approved by DHS (the "Official Close-Out"). Second, the auditors' calculation included a portion of the Agency's fee-for-service payments to Basic for Cluster II even though these payments were based on actual care days and therefore not subject to close-out. (*Id.*) Third, the auditors included in their calculation DHS' fee-for-service payments to Pilgrim even though this arrangement was wholly outside the Contract. Moreover, since

payments to Pilgrim were premised on actual care days, they, too, were not subject to close-out. As a result of these estimates, the amount of questioned costs cited in the Draft is significantly inflated. (Section V.C)

Based on DHS' review of Basic's February 2008 disbursements and the four line-item expenditures for FY 08 (based on the Official Close-Out), DHS is disallowing \$132,963 in Cluster I costs.¹ (Section V.C) Although not subject to a fiscal year-end close-out, all invoices for services rendered pursuant to a fee-for-service arrangement, such as DHS' contracted arrangement with Basic for Cluster II units and the Agency's non-contracted arrangement with Pilgrim for 57 units, are subject to a monthly care-day reconciliation process to ensure accuracy before any payment is made. (Section IV.C)

2. The Draft concludes that DHS lacked controls over the processing of payments to Basic. This incorrect finding is based on a sampling of invoices with respect to which the auditors identified "discrepancies" totaling \$36,075. The auditors' finding is based almost entirely on a misidentification of computer codes which, if read correctly, justifies the Agency's payment to Basic. (Section V.F)
3. The Draft made findings and recommendations with respect to Basic's noncompliance with certain administrative and accounting provisions of the Contract, allocation of costs, and its lack of segregation of duties over its accounting functions. As noted above, in an abundance of caution, DHS Audit Services will review the appropriateness of FY 08 Cluster I expenditures to determine whether additional funds should be recouped. In addition, the Agency will retain an independent accounting firm to conduct an audit in FY 10 of Basic's FY 09 operating funds to determine whether they were appropriately expended and administered. (Sections V.C, V.D and VII)
4. The Draft's findings relating to Basic's programmatic operations primarily concerned compliance with record-keeping requirements and timely completion of forms regarding client case records. DHS utilizes these same performance measures, among many others, in its semi-annual evaluation of all providers. While the Agency noted deficiencies similar to those identified by the auditors in its programmatic evaluation of Basic for the first half of FY 09, in its corrective action plan, Basic demonstrated its ongoing commitment to improve its performance. Notwithstanding these issues, it is critical to note that during the period July 2008-March 2009, Basic achieved 154 percent of its move-out target and now ranks as one of DHS' top providers in helping clients to exit shelter for homes of their own. (Section VI)

IV. BACKGROUND

A. DHS' Conversion-to-Contract Initiative

In Fiscal Year 2003, DHS launched an initiative to convert non-contracted, fee-for-service family shelter units ("fee-for-service shelter") to contract. In furtherance of this initiative, DHS created the neighborhood-based cluster program. Under the cluster model, DHS contracts with a provider to shelter homeless families in separate buildings clustered together by borough and to provide cluster

¹ DHS' disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

families with social services to assist them in moving out of shelter and into permanent housing as expeditiously as possible.

The Agency's initiative to convert fee-for-service shelter to contract was, in part, a response to the Comptroller's October 2003 Audit Report on DHS' Services Controls and Payments to Hotel and Scatter Site Housing Operators July 1, 2001-June 30, 2002 (the "October 2003 Audit"). In response to the October 2003 Audit, Deputy Mayor Linda Gibbs, then the Commissioner of DHS, represented that the Agency would make every effort to convert facilities to contract as shelter demand and existing capacity would allow. (*See* June 25, 2003 letter from then Commissioner Gibbs to Comptroller Thompson)

In the ensuing years, DHS made significant progress in converting fee-for-service shelter to contract. The Contract with Basic to operate a cluster program was one of the earliest examples of this successful and continuing effort. As of June 22, 2009, the Agency has successfully converted to contract 5,296 shelter units for families with children ("families"). In addition, 645 family units targeted for conversion are now subject to contracts which are in final stages of the procurement process. These units, together with the 5,296 units currently under contract — 5,941 units in total — constitute more than two-thirds (or 70%) of all family shelter units. DHS will continue to pursue its conversion efforts and move fee-for-shelter sites to contract as expeditiously as possible.

B. Evolution of the Contract

DHS issued an amended open-ended Request for Proposals ("RFP") on December 30, 2002 seeking organizations to operate a Neighborhood-Based Cluster Transitional Residence program for families with children (the "Cluster Program"). Basic, a not-for-profit, community-based organization, submitted a proposal, dated June 11, 2003, in response to the Agency's RFP. Upon review of the proposal and completion of the RFP process, DHS decided to contract with Basic. Prior to entry into the Contract, DHS made non-contracted fee-for-service payments to various building owners/landlords for some of the units within the Basic Cluster Program.

1. The Contract

In July 2004, DHS and Basic entered into a Neighborhood Based Cluster Transitional Services Agreement for the period August 1, 2004 to June 30, 2009 with an option to renew for one additional four-year term. Pursuant to the Contract, Basic provided shelter and social services to homeless families with children in 143 transitional housing units in eight buildings located in Manhattan and the Bronx ("Cluster I"). (Exhibit ("Ex.") 1 on page 1)² DHS paid Basic at a base rate of \$97.52 per family, per day, including start-up amortization.

As is always done in the case of shelter contracts based on a line-item budget, Basic was reimbursed under the Contract through a fiscal year-end close-out process for its covered Cluster I expenses. Pursuant to this process, the Agency compares Basic's actual line-item expenditures to the budget that the parties negotiate for each fiscal year. This analysis forms the basis for DHS' determination whether to disallow costs/overpayments or to approve additional expenses (not to exceed the

² The illustration annexed as Ex. 1 (page 1) depicts the structure of the Contract upon its execution by DHS and Basic and the Contract's structure resulting from the First Amendment.

annual budget) as part of the close-out. The Official Close-Out reflects DHS payments to Basic in the amount of \$5,053,090 for FY 08, excluding \$341,013 in disallowances.

2. The First Amendment

Pursuant to the Modification Agreement, dated June 12, 2007 (the "First Amendment"), which was registered by the Comptroller on July 23, 2007, the Contract was expanded to include social services for 178 additional families residing in fee-for-service shelter units in Manhattan and the Bronx ("Cluster II"). (Ex. 1 on page 1)

The First Amendment provided that DHS would pay Basic for the social services provided to the families residing in these units on a fee-for-service basis at a base rate of \$31.20, per family, per day. DHS continued to pay the owners/landlords of the buildings in which these 178 units are located on a fee-for-service basis for their use as shelter. The fee-for-service payment mechanism was used as an interim step to bring the additional 178 units under the Contract and provide the full complement of social services pending the outcome of rent negotiations between the building owners/landlords and Basic.

At the end of FY 08, while Basic submitted a close-out statement for Cluster I, it did not do so for Cluster II. Since the payment mechanism for Cluster II was fee-for-service, there was no line-item close-out in connection with Cluster II. Instead, DHS paid Basic for the social services it provided to Cluster II families based on the number of care days per family, per unit as set forth in Basic's monthly billing submissions. The FY 08 fee-for-shelter statement for Cluster II reveals that DHS paid Basic a total of \$2,422,196, excluding adjustments totaling \$8,707, for the services provided to families in these 178 units.

3. The Second Amendment

In Fiscal Year 2009, pursuant to the Modification Agreement, dated September 5, 2008 (the "Second Amendment"), which was registered by the Comptroller on October 9, 2008, the Contract was amended to provide for an increase in units to 643. Included in the 643 units were: (1) the 143 Cluster I units; and (2) 500 Cluster II units, which included the original 178 Cluster II units and the 57 Pilgrim units, as well as capacity to reach a total of 500 cluster units. As a result of the Second Amendment, the Cluster II and Pilgrim units were made subject to the Contract under a single line-item budget and base rate of \$107.33, while the 143 Cluster I units already under the Contract were governed by a separate line-item budget and a base rate of \$101.85. (Ex. 1 on page 2)³

4. The Pilgrim Cluster

Pursuant to a non-contracted, fee-for-service arrangement with Pilgrim that commenced in July 2007, DHS paid Pilgrim for 57 cluster units (the "Pilgrim Cluster"). Pursuant to a separate arrangement between Pilgrim and Basic, Pilgrim paid Basic to provide social services to the Pilgrim clients residing in those units. This fee-for-service arrangement was totally separate from and outside the Contract. (Ex. 1 on page 1) As noted above, pursuant to the Second Amendment

³ The illustration annexed as Ex. 1 (page 2) depicts the structure of the Contract resulting from the Second Amendment.

registered in October 2008, the 57 units were folded into the Contract and made a part of Cluster II. (*Id.*) Previously, verification and reconciliation of fee-for-service payments to Pilgrim, and to Basic for Cluster II units, had been conducted in accordance with the Agency's care-day reconciliation process discussed below. (Section IV.C)

5. The Renewal Contract

The Renewal Contract — which currently is in the procurement process — combines under one line-item budget and one base rate (\$105.22) the 643 units. (Ex. 1 on page 3)⁴ DHS shortened the period of the Renewal Contract to one year (July 1, 2009 to June 30, 2010) with four one-year renewal options to enable the Agency to work with Basic to address areas of concern identified in the Draft and the final audit report.

C. The Care-Day Reconciliation Process

As noted above, prior to the Second Amendment of the Contract in October 2008, DHS paid Pilgrim and Basic (for Cluster II units) based on actual care days. The Agency processes monthly billing submissions from and makes payments to fee-for-service family shelter providers based upon data that the Agency's Housing Emergency Referral Operations (HERO) inputs into the DHS Client Tracking System (CTS) concerning the family's placement in and departure from the family shelter system.

HERO operates 24 hours a day, seven days a week (including holidays) and is responsible for the placement of homeless families in shelter, tracking of shelter clients, controlling vacancies in the family shelter system, and reconciling data concerning the exiting of families from shelter. HERO utilizes CTS, an electronic database that became operational in January 2003, to document and track, among other things, each family's entry into and exit out of the family shelter system as well as each family's activity from the time of arrival to the time of departure, such as a family's transfer from one shelter to another. HERO's Vacancy Control Unit contacts every shelter to verify client arrivals and departures as part of a *daily* reconciliation of shelter units and CTS data. This is accomplished by using a combination of CTS automated reports, non-automated reports and communications with shelter staff in order to compare and verify current data in CTS.

Reconciliation and payment of claims from fee-for-service providers is accomplished using CTS and the DHS Billing System. The Billing System, which is managed by the Agency's Office of Information Technology, calculates what is owed to each provider based on lodging and rate information maintained in CTS. The Financial Management System (FMS) is used to pay providers through electronic funds transfers (EFT), with payments issued by the Department of Finance to the provider's bank account.

Shelter providers are required to designate a financial officer or agent thereof to certify and attest to the accuracy of their monthly billings and all associated documents. Each invoice submitted to DHS must include a statement of certification and the signature of the financial officer or his/her agent. Upon receipt of an invoice, a DHS supervisor or designee will review the submission for completeness regarding required signatures for certification. If the invoice is incomplete due to

⁴ The illustration annexed as Ex. 1 (page 3) depicts the structure of the proposed Renewal Contract.

missing certification and/or required signatures, the supervisor will immediately contact the provider to resend a corrected invoice.

Once it is determined that the invoice contains the required certification, Agency staff generates a Pre Payment Register from the Billing System for the same billing period indicated on the invoice. The Pre-Payment Register is an automated report that lists the shelter's lodging history based on CTS records. DHS staff compares the Register line by line against the shelter invoice and annotates the invoice for any inconsistencies in dates of residency, family composition, case numbers, unit occupancy and daily rate. Agency staff investigates all inconsistencies uncovered as a result of this comparison; the type of discrepancy determines the action the Agency must take to resolve it. All discrepancies are reconciled in favor of CTS unless the provider submits evidence (e.g. client sign in/out logs) demonstrating that CTS is incorrect.

After DHS staff completes the comparison, confirms any inconsistencies and documents any updates recommended to the CTS Unit, the entire invoice folder is submitted to a senior supervisor for review. After reviewing the invoice folder for completeness, the senior supervisor approves the invoice and submits the invoice folder to the supervisor for processing of payment.

DHS staff also detects and recoups overpayments to shelter providers paid through the Billing System. The two major causes of overpayments are changes in lodging history (resulting from HERO's ongoing CTS updates) and retroactive rate reductions. If the shelter provider does not challenge an overpayment or cannot provide documentation to reverse DHS' determination that an overpayment occurred, the Agency takes steps toward recoupment.

D. Fiscal Monitoring Tools

DHS utilizes several tools to monitor a shelter provider's compliance with contract provisions and to ensure that the provider's use of City funds is appropriately expended. DHS retains contracts with six independent accounting firms ("CPA firms") to conduct audits of one-third of the Agency's human services contracts every year. In the event issues arise concerning a provider in a year not subject to automatic audit, DHS' internal auditors or one of the Agency's CPA firms will conduct a special audit of the provider's operations that are of concern. DHS' Audit Services unit also conducts "expenditure reviews" each year. The auditors randomly select a provider and examine documentation concerning all expenditures incurred by that provider during a randomly selected month within the past two years. In addition, all contract providers are required to submit certified financial statements and A-133 audits (where applicable under federal Office of Management and Budget (OMB) Circular) on an annual basis.

Given staff constraints and the size of DHS' provider portfolio (in excess of 260 human services contracts), it is not possible for DHS or its CPA firms to conduct annual audits or expenditure reviews of each of its contracts. However, the internal and CPA audits, special audits as necessary, and expenditure reviews, coupled with the fiscal year end close-out process for line-item budgeted contracts and the care-day reconciliation process for fee-for-service providers, provide more than adequate monitoring of shelter providers' use of City funds.

E. Programmatic Monitoring Tools

The Agency's Family Services Division conducts semi-annual evaluations of its shelter providers consisting of unannounced arrival at the site for a multi-day review, which includes a physical plant inspection of randomly selected apartments, a social services evaluation based on a sampling of client case records, and the shelter's success in meeting its move-out targets. The results of the evaluation, including a discussion of deficiencies, are recorded in a report called the "Monitoring Tool." The provider has 30 days from its receipt of the report to submit a corrective action plan to DHS. The Agency also evaluates providers' performance through Vendex checks, semi-annual routine site review inspections ("RSRI") of shelters' physical conditions, and the Performance Incentive Program ("PIP"), an annual performance evaluation program which is designed to reward providers that successfully and efficiently place families into permanent housing and reduce families' length of stay in shelter.⁵

V. DHS' RESPONSES TO DRAFT FINDINGS AND RECOMMENDATIONS REGARDING BASIC'S COMPLIANCE WITH ADMINISTRATIVE AND FINANCIAL PROVISIONS OF THE CONTRACT

For the reasons outlined below, we agree with certain of the Draft's findings and recommendations and disagree with others concerning Basic's compliance with administrative and financial provisions of the Contract.

A. Documentation Requirements of the Contract

The Draft found that Basic had not maintained all of the documentation, or provided DHS with all documents, required by the Contract (7)⁶ and recommended that DHS ensure that Basic provide all such documentation. (8. Recommendation ("Rec.") No. 2) Toward this end, the Agency is developing a contractor checklist, effective in FY 10, to ensure that all of its providers, including Basic, obtain and provide all required documentation. Thereafter, as part of its annual budget review, DHS will use the checklist to ensure that Basic (and its other providers) continues to meet all administrative provisions of the contract.

B. The Contract's Hiring Commitment for Homeless Clients

The Draft determined that Basic had not complied with its contractual commitment to hire at least one homeless client or formerly homeless person for each \$250,000 in contract value in a fiscal year (9). In accordance with the Draft's recommendation (Rec. No. 4 on page 9), the Agency's Family Services Division will monitor Basic's compliance with this provision under the Renewal Contract.

C. Use of Funds in Accordance with the Contract

The auditors identified "almost \$1.3 million in questioned costs" (10). \$559,581 of this amount was premised on their review of Basic's February 2008 disbursements and four line-item expenditures

⁵ Under PIP in FY 08, DHS increased or decreased the original daily rate by up to 10 percent for the provider based on the provider's performance.

⁶ Unless otherwise indicated, the numbers in parentheses refer to page numbers of the Draft.

for FY 08. (Draft Table II on page 11) The remaining \$730,981 was what DHS paid Pilgrim for 57 cluster units in FY 08. (Draft Table I on page 7)

As explained in greater detail below, the Draft Analysis is flawed because it is premised on Basic's *preliminary* close-out request instead of the Official Close-Out for Cluster I. Second, the auditors' calculation included a portion of the Agency's fee-for-service payments to Basic for Cluster II even though these payments were based on actual care days and therefore not subject to close-out. Third, the auditors included in their calculation DHS' fee-for-service payments to Pilgrim even though this arrangement was wholly outside the Contract. Moreover, since payments to Pilgrim were premised on actual care days, they, too, were not subject to close-out. As a result of these estimates, the amount of questioned costs cited in the Draft is significantly inflated.

As demonstrated below, based on DHS' review of Basic's February 2008 disbursements and the four line-item expenditures for FY 08 (based on the Official Close-Out), DHS is disallowing \$132,963 in Cluster I costs.⁷ (See DHS' Tables I and Table II annexed as Exhibits 2 and 3, respectively) Further, as discussed below, DHS is not disallowing the \$730,981 in payments to Pilgrim because these payments were made pursuant to a non-contracted, fee-for-service arrangement wholly separate and apart from the Contract. (Section V.C.2)

1. Use of Funds for Expenses Related to the Program

At a meeting prior to issuance of the Preliminary Draft Audit Report, dated April 23, 2009, DHS informed the auditors that, in response to their request for a close-out statement, Basic had submitted a preliminary close-out request. Basic provided preliminary numbers because at the time of the auditors' request, the Official Close-Out had not yet been completed or approved. On March 31, 2009, after completion of the Official Close-Out, the Agency provided the auditors with a copy. Nevertheless the Preliminary Draft premised its analysis of questioned costs on the preliminary close-out request. Even after DHS again raised this issue at the Exit Conference on May 19, 2009, the Draft Analysis continues to rely on the preliminary close-out request.

Following the Exit Conference, DHS asked Basic to provide all documentation supporting its February 2008 expenses and the four line-item expenditures relating to Cluster I. Over the course of several meetings with Basic, we reviewed its documentation and determined that the majority of these expenses were appropriate. In contrast, the amount of costs questioned by the auditors was significantly inflated. Specifically, out of total expenditures of \$3,126,233, the auditors questioned \$559,581 (Draft Table II, Column A on page 11). (*Id.*: \$375,661 in Column B, \$45,279 in Column C, and all or a portion of \$138,641 in Column E; Rec. No. 7 on page 13)

As reflected in DHS' Table II (Ex. 3, Column A), the disbursements for February 2008 and the four line-item expenditures for Cluster I total \$2,557,615. This total differs from the total reported in the Draft's Table II because it is based on the Official Close-Out, and excludes the fee-for-service Cluster II amounts. Of this total (*i.e.*, \$2,557,615), DHS determined that \$132,963 was not supported by sufficient documentation and, therefore, is disallowing this amount. (Ex. 3, \$33,213 in Column B, \$45,891 in Column C, and \$53,859 in Column E).

⁷ DHS' disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

For the foregoing reasons, while the auditors identified \$559,581 in questioned costs DHS is disallowing only \$132,963.⁸

2. Payments to Pilgrim

The Draft concludes that DHS should disallow all or a portion of the \$730,981 that Pilgrim paid Basic. However, the arrangement between DHS and Pilgrim was separate and apart from the Contract and for units not covered by the Contract. For this reason, DHS is not disallowing any portion of this amount.⁹

The only way to determine whether any portion of the \$730,981 should be disallowed would be to audit *all* expenditures under Basic's FY 08 Cluster I Contract and disallow expenditures that were not incurred for the Cluster I program.¹⁰ Thus, as part of the Agency's corrective action plan, DHS Audit Services will review the appropriateness of Basic's FY 08 Cluster I expenditures and determine whether additional funds should be recouped.

3. Funds Transferred to Basic's Affiliate

The Draft concludes that Basic transferred funds into and out of its affiliate's bank accounts with inadequate supporting documentation or explanation and, as a result, a portion of the City funds provided to Basic under the Contract "may have been used by the affiliate for its operation." (12) The auditors further conclude that "[b]y not systematically examining [Basic's] bank transactions and related invoices, DHS allowed" this to occur and recommended that DHS conduct a "periodic examination of [Basic's] books and accounting records to ensure that all funds are exclusively used for [Basic's] contract operations." (Rec. No. 8 on page 13) It should be noted that of the \$138,641 cited in the Draft as the "amount to be allocated between Basic Housing and Basics, Inc." (Draft Table II, Column E on page 11), DHS, after reviewing the documentation provided by Basic, has determined that only \$53,859 should be disallowed.¹¹ (Exhibit 3, DHS Table II, Column E)

The Draft fails to note that the Contract allows Basic to use up to 8.5 percent of its annual budget to pay for overhead expenses. This is a standard provision in all DHS' contracts with its shelter providers and it allows providers to transfer funds to an affiliate (or parent organization) for the provision of appropriate support services. Also, DHS has determined that the affiliate legitimately made some purchases on behalf of Basic for which Basic made reimbursement to the affiliate.

⁸ DHS' disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

⁹ The Draft also erroneously states that after the auditors brought the Pilgrim issue to DHS' attention, the Agency "began to directly refer these Pilgrim clients to [Basic]." (Draft at 12) It was solely as a result of the Agency's desire to consolidate Basic's services under a single contract that, pursuant to the Second Amendment, the 57 Pilgrim units were added to Cluster II.

¹⁰ Of the \$730,981, the Draft cites only "\$8,933 in security services provided in February 2008 that should have been allocated to Pilgrim clients . . ." (12) As noted, without conducting an audit of *all* expenditures under Basic's FY 08 Cluster I contract, DHS has no way of determining whether this amount should be disallowed.

¹¹ Here again, DHS' disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

Further, whether a provider appropriately used City funds can be conclusively determined only *after* its contract expenditures have been closed out at the end of the fiscal year *and* audited.

Notwithstanding the above, as part of the Agency's corrective action plan, Audit Services will review the appropriateness of the FY 08 transfer of funds between Basic and its affiliate to determine whether additional funds should be recouped. (See Rec. No. 9 on page 24) Also, DHS will retain a CPA firm to conduct an audit in FY 10 of Basic's FY 09 operating funds, to determine whether they were appropriately expended and administered.

D. Accounting Practices

The Draft found that Basic had failed to comply with certain accounting provisions of the contract and, consequently, prepared unreliable financial reports with insufficient supporting documentation or justifications. (14)

1. Accounting Records to Support the Use of Funds

The Draft states that the auditors' "review of the financial records revealed that there was a lack of reconciliation at [Basic] to ensure the accuracy of the expenses reported on the close-out request" and that "the invoices, general ledger, and close-out request amounts did not reconcile, as shown in Table III." (14-15) As already noted, the "close-out request" was preliminary to the final FY 08 Official Close-Out. Therefore, the numbers in Table III are not final because they are based on incorrect *preliminary* numbers. The amounts reflected in Table III also erroneously include amounts relating to Cluster II.

The Draft further states that the auditors "found no evidence that DHS questioned the validity and reliability of these expenses." (15) As noted above, DHS cannot conclusively audit these expenses until after they have been paid and closed out at the end of the fiscal year.

DHS will continue to monitor its providers' accounting practices through internal Agency and CPA audits. In accordance with the Draft's recommendation that DHS ensure that Basic has proper internal controls in relation to the reporting of expenses under the Contract (Rec. No. 12 on page 17), DHS will retain a CPA firm to conduct an audit in FY 10 of Basic's FY 09 operating funds to determine whether they were appropriately expended and administered.

2. Documentation for Expenses Paid

The Draft found that Basic did not maintain proper and sufficient supporting documentation of its expenditures. (15-16) As mentioned above, following the Exit Conference DHS asked Basic to provide documentation supporting the February 2008 expenses and the four line-item expenditures relating to Cluster I. The Draft cited \$375,661 as "amounts with no supporting evidence." (Draft Table II, Column B on page 11) However, Basic produced documentation to DHS for all but \$33,213 of the expenditures for February 2008 and the four line-item expenditures.¹²

¹² DHS' disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow up with Basic after issuance of the final audit report.

The Agency will retain a CPA firm to audit Basic's FY 09 expenditures. Thereafter, if, in the course of its monitoring of Basic's compliance with financial provisions of the contract, DHS has reason to suspect that Basic has inappropriately used City funds, the Agency will take appropriate action, including the ordering of special CPA audits.

3. Submission of the Close-Out Request

The Draft states that DHS' close-out procedures required submission of a close-out statement by September 1, 2008, but the auditors did not receive the preliminary close-out request from Basic until March 4, 2009 and it was not approved by DHS until March 27, 2009. (Draft on page 16) The Draft further concludes that "because of a lack of timely oversight by DHS," Basic failed to submit its close-out request in a timely manner and recommends that the Agency "should" ensure that it does not make monthly payments to Basic if it fails to submit monthly expenditure reports and year-end close-out requests in a timely manner "as required by the contract." (Rec. 13 on page 17)

The close-out statement that Basic gave DHS on January 29, 2009 contained preliminary estimates. On March 4, 2009, DHS received a completed close-out statement which it reviewed and approved on March 27, 2009. As we explained at a preliminary conference prior to the Exit Conference, the close-out process is initiated by the provider's submission of close-out documents to DHS. The Agency reviews the documentation and returns it to the provider if revision is required. Depending on the complexity and size of the contract, this can be a lengthy process. The Contract at issue here, with its combination of line-item and fee-for-service payment mechanisms, is particularly complex and, as a result, the close-out process took an unusually long time to complete. Additionally, DHS' providers cannot close out their contracts with the Agency until *after* they close out their own books and records.

Finally, DHS must exercise prudence with respect to withholding payments to its shelter providers, and considers the nature and significance of contractual compliance matters as well as impacts on the family shelter system. Specifically, the Agency does not interpret any provision in the Contract to mean that in all circumstances, DHS must withhold payment of advances or monthly bills submitted after September 1 in the absence of a final close-out from the prior fiscal year. Were that the case, the family shelter system would be negatively impacted upon depletion of cash flow or other cash reserves that enable the provider to continue providing services while close-outs are being processed.

4. Segregation of Duties over Accounting Functions

The Draft found that Basic "did not properly segregate duties in its accounting unit relative to the processing of payments received from DHS" and recommended that DHS should ensure that Basic has proper internal controls in relation to the reporting of expenditures under the Contract. (16, Rec. 13 at 17) As part of their audit of providers, DHS' CPA firms review whether the provider is complying with generally accepted accounting principles including segregation of duties over accounting functions. In its audit of Basic's financial performance under the Contract for FY 09, the CPA firm will review whether Basic is properly segregating duties in its accounting unit.

5. Reporting of Miscellaneous Income

The Draft found that Basic had failed to identify 1099-reportable entities it had made payments to since the inception of the Contract. (17) DHS will instruct the CPA firm conducting the audit of Basic's FY 09 expenditures to review this issue.

E. Processing of Payments by DHS

Based upon a sampling of payments made on invoices submitted to the Agency, the auditors identified "discrepancies not resolved by DHS" totaling \$36,075. (18; Draft Table IV on page 19) Accordingly, the Draft concluded that DHS "did not consistently verify the accuracy of the client invoices and determine the discrepancies to be recouped from the provider's subsequent payments." (19) The Draft therefore recommends that DHS "consistently reconcile invoices against CTS, resolve any discrepancies, and recoup funds as necessary" and "[e]nsure that accurate client information is maintained in CTS." (Rec. Nos. 14 and 15, respectively, on page 19)

At the Exit Conference, DHS provided the auditors with documentation indicating that they had misidentified codes in CTS. For example, the auditors misidentified a CTS code indicating a change in family composition as the family's exit from shelter and recorded this "discrepancy" on Table IV. This single misidentified CTS code accounted for \$32,130 of the \$36,075 on Table IV. DHS was able to account for all of the \$36,075 as resulting from misidentification of CTS codes and adjustments handled in the final billings.¹³

VI. RESPONSES TO DRAFT FINDINGS AND RECOMMENDATIONS REGARDING BASIC'S COMPLIANCE WITH PROGRAMMATIC PROVISIONS OF THE CONTRACT

The Draft's findings relating to Basic's programmatic operations primarily concern compliance with record-keeping requirements and timely completion of forms. Based upon a sampling of client case records, the auditors found that health-screening forms, bi-weekly reviews with clients, and school verification letters were missing from a percentage of the case records sampled. (21) The Draft also concluded that clients did not receive services in a timely manner as evidenced by the fact that Case Record Admission/Assessment form and independent living plans in some of the sampled records were not completed within prescribed time frames. (22) DHS utilizes these same performance measures, among many others, in its semi-annual evaluation of Basic and, in its programmatic evaluation of Basic for the first half of FY '09, found similar deficiencies.

Basic's corrective action plan in response to this evaluation demonstrates its ongoing commitment to improving its performance. Moreover, on May 18, 2009, DHS conducted a re-training of Basic staff on what information must be documented in the client's case record and what documents must be filled out and made a part of the case record. Notwithstanding these issues, it is critical to note during the period July 2008-March 2009, Basic achieved 154 percent of its move-out target and now ranks as one of DHS' top providers in helping clients to exit shelter for homes of their own.

¹³ The Draft states that "[f]uture contract budget amounts are established, in part, based on the number of care days provided during previous years." (19) This is inaccurate.

VII. RESPONSES TO “OTHER MATTER”

The auditors examined the December 2007 and January 2008 invoices submitted by Pilgrim to DHS for payment and compared them to the corresponding invoices that Basic sent to Pilgrim. Since Basic's invoices did not match Pilgrim's, the Draft concludes that DHS paid \$1,789 “for services that [Basic] did not reportedly provide.” (24; see Rec. Nos. 22 and 23 on page 24) This draft finding is based on the auditors' misunderstanding of the fee-for-service arrangement between DHS and Pilgrim. Under this arrangement, DHS paid Pilgrim (not Basic) based on actual care days and, as the Agency does with all of its fee-for-service providers, subjected all of Pilgrim's invoices to the Agency's monthly reconciliation process before making any monthly payments to Pilgrim.

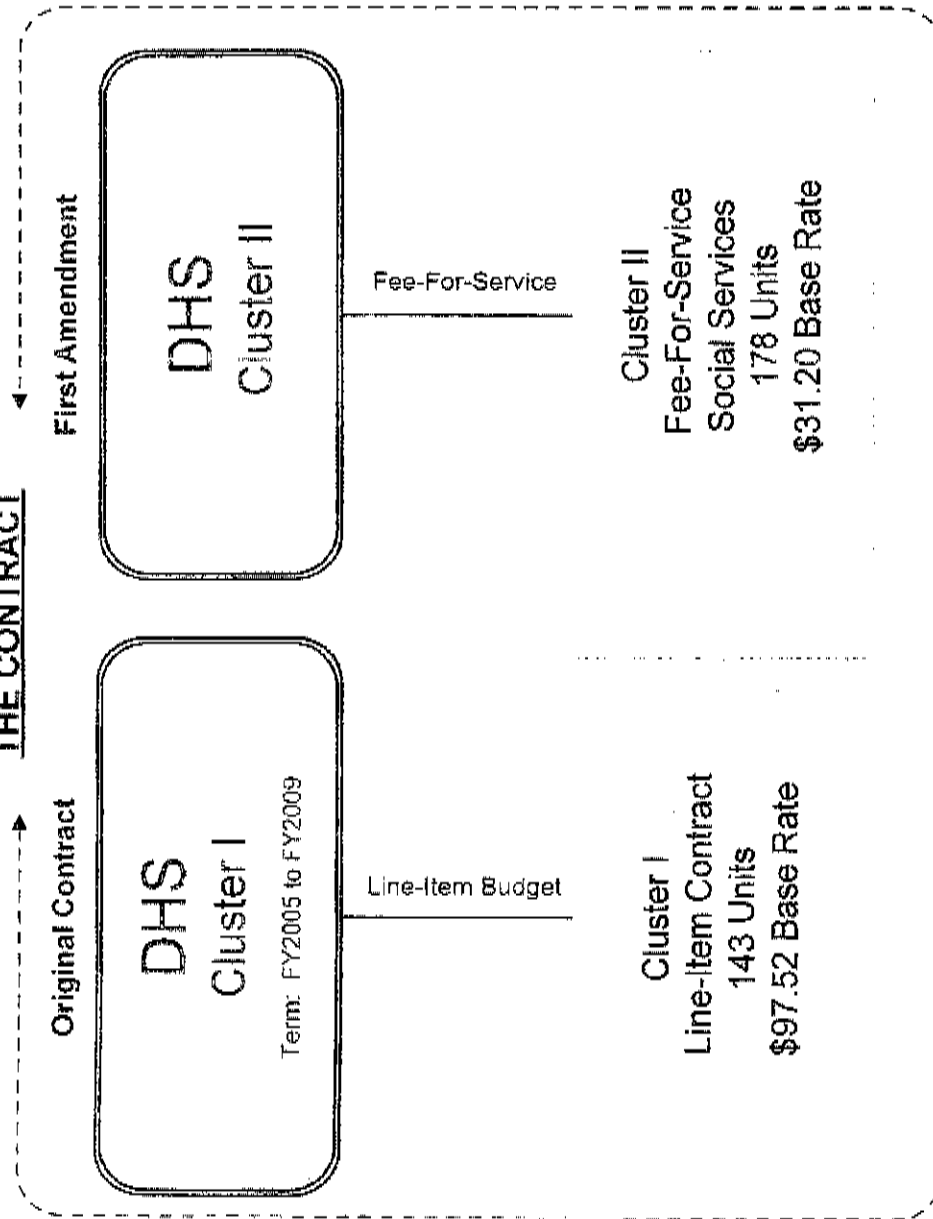
VIII. CONCLUSION

Serious flaws in the Draft Analysis — reliance on preliminary close-out numbers and inclusion of Cluster II fee-for-service payments as well as payments to Pilgrim outside the Contract — resulted in the auditors' significant inflation of questioned costs totaling \$1.3 million. Based on DHS' own review of supporting documentation for FY 08 Cluster I expenditures, DHS will disallow \$132,963. Finally, in response to the Draft's recommendation that DHS require Basic to provide a corrective action plan to “correct the problems noted in this audit” (Rec. No. 21 on page 23), the Agency will work with Basic to implement a plan to address various Draft findings and recommendations and implement agreed upon recommendations.

Ex. 1

THE CONTRACT

OUTSIDE THE CONTRACT



Non-Contracted
Fee-For-Service

Pilgrim
57 Units

Basic
(Social Services Only)

→ THE CONTRACT ←

Second Amendment

DHS

Two Line-Item Budgets

Cluster I - 143 Units

\$101.85 Base Rate

Cluster II - 500 Units

178 Units (Cluster II)

57 Units (Pilgrim)

265 Units (Additional)

\$107.33 Base Rate

Total: 643 Units

→ THE CONTRACT ←

Proposed Renewal Contract

DHS

One Line-Item Budget

643 Units

\$105.22 Base Rate

Term 7/1/09 – 6/30/10

Ex. 2

DHS Table I

DHS Analysis of Unsupported and Unallocated Costs
(DHS' Determination of Disallowable Expenses)

Category	Amount Audited	Unsupported Costs or Overpayments	Unallocated Costs ***
February 2008	\$255,042 *	\$4,470	\$0
Four Expenditure Line Items	\$2,302,573 **	\$74,634	\$53,859
Payments Received from Another Provider	\$730,981 ****	\$0	\$0
Totals	\$3,288,596	\$79,104	\$53,859
		2.41%	1.64%

* February, 2008 - 51 disbursement checks paid to vendors.

** Based on the final approved FY 08 close-out statement and excludes fee-for-service payments for Cluster II.

*** Represents misallocated costs.

**** Fee-for-service

Note: DHS disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

Ex. 3

DHS Table II
DHS Analysis of Sampled Fiscal Year 2008 Expenditures
(DHS' Determination of Disallowable Expenses)

Category	Expenditures Reported by Basic Housing A	Amounts with No Supporting Evidence B	Amounts Not Related to Basics Housing Operations C	Total Amounts Unsupported D (B+C)	Amount to Be Allocated between Basic Housing and Basics, Inc. E ***
February 2008	\$255,042 *	\$0	\$4,470	\$4,470	\$0
Four Expenditure Line Items					
Professional Services	\$66,490 **	\$0	\$41,421	\$41,421	\$11,069
Maintenance / Repair	\$129,123 **	\$31,421	\$0	\$31,421	\$2,634
Office Equipment	\$25,316 **	\$1,792		\$1,792	\$40,156
Rent	\$2,081,644 **	\$0	\$0	\$0	\$0
Subtotal	\$2,302,573	\$33,213	\$41,421	\$74,634	\$53,859
Grand Total	\$2,557,615	\$33,213	\$45,891	\$79,104	\$53,859

* February, 2008 - 51 disbursement checks paid to vendors.

** Based on the final approved FY 08 close-out statement and excludes fee-for-service payments for Cluster II.

*** Represents misallocated costs.

Note: DHS disallowance amounts may change based on additional documentation that Basic may produce between now and the Agency's follow-up with Basic after issuance of the final audit report.

Introduction

Basic Housing believes that the audit is flawed fundamentally in its expense methodology. The Department of Homeless Services and Basic Housing, Inc. have described the three specific program arrangements: the Cluster I contract for 143 units; the Cluster II fee for service program for 500 units; and the Pilgrim fee for service arrangement. The Comptroller's audit team continues to treat these separate items as one contract.

As a consequence, the close-out numbers used by the Comptroller's Office are wrong because:

- the Cluster II fee for service program did not have a line item budget and, therefore, was not required to submit an expense close-out. Instead, Cluster II was closed-out based on care days. In addition, the Pilgrim program did not require a DHS expense close-out at all because this fee for service agreement was between Pilgrim and Basic Housing.
- the merging of contracted services expenses with fee for service expenses resulted in expense numbers that did not have a budget baseline from which to measure against.

Basic Housing completed an expense close-out for the Cluster I contract, per DHS' instructions. As part of this response, Basic Housing is submitting detailed documentation that relates to the Cluster I contract close-out. (Please see Reference #'s PS1-PS9 Professional Services, Reference #'s MR2-MR49 Maintenance/Repair, Reference #'s OE2-OE18 Office Equipment, and Reference #'s R1-R149 Rent.)

If Basic Housing uses the Comptroller's merged close-out expenses to respond to, the numbers are at variance to the DHS-approved closeout. Likewise, if Basic Housing adheres to the DHS methodology, it diverges from the audit team's methodology. In the final analysis, Basic Housing is left with little choice but to respond to the audit team's combined closeout numbers.

Basic Housing's Response to the Comptroller's Findings and Recommendations

Basic Housing disagrees with the Comptroller's findings that it did not adequately comply with certain administrative and financial provisions of the contract and that it did not consistently provide required social services to clients. It thinks that the majority of the financial non-compliance issues that the audit team found were because the audit team did much of its work before Basic Housing closed out the fiscal year.

Marks, Paneth & Shron LLP. Basic Housing's CPA auditors, recently completed its audit of Basic Housing for the Years Ended June 30, 2008 and 2007 (Please see Reference # Audit1). The Year ending June 30, 2008 matches the time frame that the Comptroller's

audit team examined. In its Independent Auditors' Report, Marks, Paneth states that the "...financial statements referred to above presents fairly, in all material respects, the financial position of BASICS and BHI (our note-BHI is Basic Housing) as of June 30, 2008 and 2007..."

Marks, Paneth further states:

"We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement preparation. We believe that our audits provide a reasonable basis for our opinion."

Basic Housing knows that it consistently provided required social services to clients. It believes that any deficiencies in documentation that were found were minimal.

Noncompliance with Documentation Requirements, Page 7

Fidelity Bond

The Chief Financial Officer and the accounts receivable clerk are covered under the Basics, Inc. fidelity bond because they are Basics, Inc employees. Going forward, all Basic Housing, Inc. financial employees will be covered by a fidelity bond in Basic Housing's name.

Bank Authorizations

It is likely that DHS requires that Basic Housing provide bank authorizations for all accounts that contain DHS money. Basic Housing has acquired all of these bank authorizations and will forward them to DHS next week.

Inventory

Basic Housing maintains inventory records on all furnishings and equipment. The inventory list, while on file, was not forwarded to DHS. Basic Housing has forwarded the 2008 inventory to DHS and will send subsequent inventory lists to DHS annually. (Please see Reference # Inv2008).

Noncompliance with Hiring Commitment for Homeless Clients, page 9

Basic Housing made a good faith effort to hire the required number of homeless clients. The agency showed good intention by hiring 9 homeless clients in anticipation of the contract-signing. Agency job postings did not result in responses by homeless clients. Recruitment efforts identified that there were frequent gaps in skill sets required for the jobs. Next year, Basic Housing will request a waiver for part of this requirement if the number of homeless clients required to be hired cannot be met.

The audit report states that Basic Housing “was not complying with a major provision of the contract”. The provision of safe, secure transitional housing to clients and moving them to permanent housing is another major provision of the contract with which Basic Housing has had an outstanding record.

Funds Not Exclusively Used for Expenses Related to the Program, page 10

The Verizon bill for \$429 was a composite bill of some Basic Housing telephone numbers. The billing address is Basics, Inc which is the administrative office. A list of Basic Housing addresses with the corresponding telephone numbers from the Verizon telephone bill was provided. (Please see Reference # Verizon1- the \$429 was part of check #3105 for \$1,998.90).

All \$1,268 in health insurance expense is for Basic Housing employees. We reconfirmed this line item by line item. Both employees were on Basic Housing’s payroll. Please see the attached documentation, including health insurance invoices and Basic Housing Payroll registers for the period in question to prove that the individuals are Basic Housing employees. (Please see Reference # Ins-1 and Reference #Payroll1).

See attached Marks Paneth’s Audited Financial Statements, including its clean opinion of Basic Housings financial statements and related expenses.

Table II, page 11

The Unallocated Costs Total of \$138,641 is incorrect. Basic Housing was only provided with the detail for the \$208,138 total of unallocated costs from the April 23, 2009 Preliminary Draft Audit Report so we can only respond to the details of the previous \$208,138. The \$138,641 should be \$30,506.

The \$78,752 in Column E should be \$0 because it is all Basic Housing expenses. The \$78,752 supplied by the Comptroller’s audit team includes a \$106.35 item for check #3101 that does not exist for that amount. The \$78,646 are automatic debits taken out of Basic Housing’s Payroll account for payroll related expenses for Basic Housing employees. Attached documentation is the Basic Housing Payroll Summary. It delineates the specific amounts taken out by date and for which payroll deductions.

The **\$29,069** portion is invoices from Nandicarm Ltd. Nandicarm Ltd was a consultant hired by Basic Housing to help with community outreach and with possible collaboration of services with other not-for-profits. The consultant was also hired to work with community boards regarding family placements in particular geographical locations. Of the \$29,069, \$11,069 is unallocated. (Please see Reference # SPS1-SPS9).

The **\$14,218** in Column E is Maintenance/Repair expenses for Basic Housing, Inc. \$11,584 of the expenses can be documented by Basic Housing. Even though the billing name and address was often to Basics, the ship-to addresses were all Basic Housing addresses, and the items were for use in the Basic Housing program. Examples are attached. (Please see Reference #'s MR Examples 1 and 2). Basic Housing has attached also a list of all Basic Housing addresses (Please see Addresses1). One bill that Basic Housing doesn't have written documentation for is to Sanitation Salvage Corp, check #2605 for \$1,104. Monthly, Basic Housing brings its garbage to Basics' 1064 Franklin Avenue location to fill a dumpster, which is then taken away by Sanitation Salvage Corp. Basics allocated part of Sanitation Salvage Corp.'s invoice for this trash haul. Nothing on the bill indicates this however, so Basic Housing cannot document it. In addition to the \$1,104, there is \$1,530 that is unallocated (Please see Reference # SMR1-SMR13).

Of the **\$16,602** in Column E - Office Equipment expense, \$8,513 is documented Basic Housing expense. Even though many of the bills' invoice mailing addresses are written out to Basics, the delivery addresses, save one, are all to Basic Housing, Inc. locations. (Please see Reference #'s SOE1-SOE18)

Total \$138,641.

The **\$230,199** in Column B is Rent expense for Basic Housing. **\$221,582** of it is Rent that Basic Housing agreed to pay the Landlords through June 30, 2008. The check wasn't written, however, until July, 2008, and DHS never paid for this. Please see the attached documentation. (Please see Reference # SRENT1)

The **\$39,009** in Column C fees is **\$38,909** in legal fees from Hiscock & Barclay, and \$100 for employee garnishment reimbursement. Basic Housing now realizes that the \$38,909 legal bill should have been an administrative expense.

The **\$100** to a Basic Housing employee was not mistakenly paid as a professional service cost, but was miscoded. The money was a reimbursement of a garnishment that the employee had previously paid himself.

The **\$5,985** in Unsupported Costs or Overpayments is also incorrect. The total should be \$4,470. (Please see Reference #'s SAMOUNTS1-SAMOUNTS3)

The **\$414,955** is part of the total expenses audited by Marks. Paneth.

DHS Paid Twice for Social Services That Basic Housing Provided for Pilgrim Realty., page 11

This is inaccurate. The Pilgrim program fee for service agreement was to provide social services to a number of families needing social services within Pilgrim. Basic Housing hired separate direct staff to deliver the direct services. See attached Trial Balance Report that shows discrete direct personnel expenses. (Please see Reference # TBI)

Inadequate Support for Funds Transferred to Affiliate, page 12

Basic Housing has an administrative agreement with Basics, Inc. to provide administrative services. The \$685,000 net amount transferred in the audit year ending June 30, 2008 is explained by individual expense item. (Please see Reference # Affiliated #1).

The following 4 items tie out the net \$685,000 that Basic Housing transferred to Basics bank account in 2008:

\$482,900 current year expenses, including the 8.5% Administrative fee paid to Basics, as well as the Direct Salaries and Fringe Benefits charged to Basic Housing for Basics personnel who did work for Basic Housing.

\$38,909 for legal.

\$4,927 for other.

\$158,264 was repayment for start-up expenses.

\$685,000 Total

Inadequate Accounting Practices, page 14

Lack of Reliable Accounting Records to Support the Use of Funds, page 14

Basic Housing's financial records, such as the general ledger, supporting documentation and year-end close-out statement amounts do reconcile.

Basic Housing has established and implemented controls over its financial operations to ensure that financial records reconcile and financial information is reliable. Basic Housing's financial management reviews the journal entries and the account analyses done by the accountants. In addition, the supporting documentation of the financial statements is checked by financial management.

The Comptroller's office audited Basic Housing before it closed out its fiscal year so the audit team may have found some expenses without supporting documentation that was later found in its yearly closeout process.

Table III, page 15

Basic Housing's final general ledger and final year end close statements do reconcile. Basic Housing has established and implemented controls over its financial operations to ensure that financial records reconcile and financial information is reliable. Basic Housing's financial management reviews the journal entries and the account analyses done by the accountants. In addition, the supporting documentation of the financial statements is checked by financial management.

See Marks Paneth's Audited Financial Statements and Audited Trial Balances.

Lack of Proper Supporting Documentation for Expenses Paid, page 15

Basic Housing appropriately spent all monies as verified by Marks Paneth's Audited Financial Statements.

Basic Housing has established and implemented controls over its financial operations to ensure that Expenses incurred pursuant to the contract are properly supported. The Comptroller's office audited Basic Housing before it closed out its fiscal year so the audit team may have found mistakes with supporting documentation that had not yet been reviewed finally by Basic Housing financial management.

Close-out Request Not Submitted in a Timely Manner, page 16

In the future, Basic Housing will submit timely its year-end closeout statements.

Lack of Segregation of Duties over Accounting Functions, page 16

Basic Housing has already segregated the duties of handling the mail (Accounting Supervisor), making bank deposits (the CPO) and reconciling bank statements (Accountants) Basic Housing will segregate the duties of making journal entries and transferring funds between bank accounts by July 1, 2009.

Miscellaneous Income Not Always Reported, page 17

Basic Housing now issues 1099-MISC forms to all appropriate parties.

Social Services Response

Basic Housing Not Consistently Complying with Certain Programmatic Provisions of the Contract, page 20

The report states in several places that the "clients are not being adequately served, which many impede their efforts to become self sufficient and secure permanent housing". Basic Housing has moved 635 families to permanent housing since July 2007. The average length of stay is only 7 months. During the first two quarters for FY 2008-2009 the program has been awarded \$184,572 in performance improvement monies as a direct result of exceeding target projections. During the months of April and May 2009, over 100 families settled into their own residences, creating stability for the family and children.

According to the contract, Basic Housing is required to provide a number of services. The report incorrectly indicates that one of those services is childcare. The contract states that we are required to provide *access* to child care services, as we are not a licensed day care facility.

Basic Housing Did Not Consistently Comply with the Record-keeping Requirements, page 20.

Basic Housing has reviewed all of the current supervisory procedures and will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009 Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.

Health Screenings, page 21

The contract states that " the contractor must establish a relationship with a fully accredited medical institution or clinic for the referrals of families for initial examination, emergency treatment and follow-up visits...in the event that the client has not had a preliminary examination performed at EAU such clients must have a preliminary examination at the time of intake when practical." The contract notes that this is to be performed "when practical". The program has an ongoing working relationship with Basics, Inc. Article 28 primary health care clinic. Beginning in 2008, a dedicated case manager was assigned to conduct outreach and follow through for all families to reinforce the importance of health care. This dedicated case manager, in conjunction with the primary case manager, work to consistently encourage the family's attendance at the medical appointments through the use of in-person reminders the day before, biweekly meetings, leaving notes under apartment doors and case conferences. All families are provided door to door transportation to the clinic to reduce additional barriers to care. Supervisory oversight will be strengthened to make sure that all efforts are documented.

Biweekly Meetings, page 21

Supervisors may miss signing every ILP during the course of the family's stay; however, to insure that caseworkers are properly serving clients supervisory oversight is conducted through multiple means. A family's progress is reviewed through a) HRA status reports, b) on a weekly basis senior supervisory staff employ the use of an agency specific tracking form that reviews every family's progress, c) as needed case conferences are scheduled that include the participation of the client, case workers, senior supervisory staff, and on occasion DHS staff, d) caseworkers submit monthly reports that indicate family progress, and e) supervisors immediately notify DHS of clients that are noncompliant or have special needs. As noted above, Basic Housing will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009 Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.

School Enrollment, page 21

The program maintains a list of all school age children at all times. All families are provided letters at intake to take to the local school for enrollment. The Department of Education has inconsistently provided a contact person at 5 out of 52 locations. Parents are required to provide written verification of school enrollment, to which they are not always compliant. Parents are required to sign a daily log indicating that the child has left for school. They do not always comply. Clients often present with a myriad of issues that are addressed individually and comprehensively. When these issues result in children not consistently attending school, the matter is immediately addressed by the caseworker and at the biweekly client meetings.

Not All Required Services Provided in a Timely Manner, page 22

The report states that not completing the case assessment and service planning forms and housing applications in a timely manner ultimately prolonged the client's length of stay. There is no single form that prolongs length of stay. Length of stay is a result of various factors, including but not limited to, resolving public assistance sanctions determined by HRA, medical reasons, illegal alien status, family noncompliance which requires due process, and lack of legal leverage to move the family to permanent housing. The CARF (Client Acknowledgement and Responsibility Form) is required to be completed at intake. For all Pilgrim cases acquired by Basic Housing, the CARFs were completed prior to Basic Housing taking over the cases; therefore, any late CARF happened prior to our contractual requirement. Our analysis indicates that our average length of stay of 7 months is below other organizations.

When Basics assumed responsibility of the families in the Cluster II sites, there was a preponderance of families that had already been in the system for more than 200 days. DHS directed Basics to bring the cases into compliance within the first 5 months of admission into Basics.

The report states that, according to the contract, unless an extension is granted by DHS, the maximum length of stay in the program for clients is six months. The contract states "the maximum length of stay shall be 6 months, subject to the Department's Client Responsibility Procedures. A family's stay may exceed 6 months; however, the contractor's ability to place a family in permanent housing within the 6 month period shall be a factor in evaluating the contractor's performance in this agreement." (Contract – Maximum Stay and Discharge – 1st paragraph, page 5)

In the First Quarter of 2009, there were 185 discharged families who had a length of stay of more than 20 days. The average length of stay was 176 days, or less than 6 months. The range was 21 to 630 days with a median of 126 days. There is no indication that the length of stay is being increased due to lack of oversight by Basic Housing.

Housing and Employment Assistance, page 23

The report states that Basics must help clients reach the goals identified in their ILP, which are mainly related to obtaining permanent housing and employment.

The CARF states as part of the family's agreement; "I must view 2 suitable apartments a week or the number that is part of my ILP".

Clients must be certified prior to engaging in apartment searches; therefore, not all clients are eligible to look for apartments. Basics uses daily van runs to transport families to search for apartments. While families agree to participate, as indicated by their signature on the CARF, there are instances where illness and other required appointments interfere with daily compliance. The rate of move-outs during the past two years contradicts the report's assertion that families are not being encouraged to search for and obtain permanent housing.

The contract states: "Assistance in securing employment assessment, job training, job placement services, if necessary and appropriate." (Contract – Permanent Housing Preparation Services – II D., page 4) The report states that in 3 cases no employment profiles were completed; however, this not a contractual requirement. The contract is clear that employment search assistance is provided if necessary and appropriate and does not mandate this for every client.

As noted above, Basic Housing will be intensifying the effort to ensure that the documentation and adherence to contractual requirements is significantly improved. In April, 2009, Basic Housing implemented a revised quality assurance plan that includes more focused and frequent chart reviews by supervisors and their administrators.