



# City of New York

## OFFICE OF THE COMPTROLLER

John C. Liu  
COMPTROLLER



## IT AUDIT

**Tina Kim**

Deputy Comptroller for Audit

Follow-up Audit Report on the  
Department of Homeless Services'  
Controls Over Billing and Payments  
Made to Aguila, Inc.

7S13-102F

October 30, 2013

<http://comptroller.nyc.gov>



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

John C. Liu  
COMPTROLLER

October 30, 2013

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

My office has audited the Department of Homeless Services' (DHS) efforts to implement the 19 recommendations made in a previous audit, *Audit Report on the Department of Homeless Services' Controls Over Billing and Payments Made to Aguila, Inc.* (Audit No. FK10-130A), issued November 4, 2011. We perform follow-up audits of City operations as a means of increasing accountability and ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

This audit noted that DHS has made some improvements in addressing weaknesses in its oversight of Aguila, Inc. that were identified in the prior audit. Of the 19 recommendations originally made, one recommendation was implemented, 10 recommendations were partially implemented, and eight recommendations were not implemented. Since the last audit, DHS now ensures that Aguila submits daily client attendance rosters for all of its facilities. However, DHS still has more work to do on issues identified from the previous audit, such as DHS's lack of written contracts with Aguila for many of its facilities; placement of clients in Aguila facilities with hazardous and unsanitary conditions; and payments of nearly \$20 million dollars to vendors without determining through the City's Vendor Information Exchange System (VENDEX) whether these vendors are allowed to do business with the City. To address the issues that still exist from the prior audit, we make 11 recommendations, including that DHS should enter into written contracts with Aguila for all of its facilities; stop placing clients in facilities with hazardous and unsanitary conditions until Aguila corrects the problems; and obtain VENDEX questionnaires for vendors as required.

At the end of this audit report, additional issues identified during this audit are discussed. These include inadequacies with DHS's inspections, monitoring of client attendance, reconciling care days with payments, and contracting, as well as oversight of Aguila facilities related to City fines and charges. To address these new issues, we make seven additional recommendations, including that DHS should vary inspectors of facilities, enforce deadlines on attendance rosters, spot-check attendance rosters and bills, have written contracts and subcontracts with performance standards, and ensure that outstanding City fines and water and sewer charges are paid before receiving payments from the City.

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

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

Sincerely,

  
John C. Liu

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER IT AUDIT

## Follow-up Audit Report on the Department of Homeless Services' Controls Over Billing and Payments Made to Aguila, Inc.

7S13-102F

### AUDIT REPORT IN BRIEF

The mission of the Department of Homeless Services (DHS) is to prevent homelessness when possible and to provide short-term, emergency shelter for individuals and families who have no other housing options available. Governed by a unique right to shelter mandate, New York City provides temporary emergency shelter to every man, woman, and child who is eligible for services, every night. Over the last 11 fiscal years, from 2002 through 2013, the number of homeless people served by DHS each night<sup>1</sup> has grown 52 percent, from 30,971 to 47,084.

DHS provided temporary emergency shelter and social services to these eligible homeless adults and families through 81 providers at 239 sites in Fiscal Year 2013, including 67 for Single Adults, 18 for Adult Families, and 154 for Families with Children. Aguila, Inc. is one of its providers, currently housing homeless adult families and families with children in more than 40 sites in Manhattan and the Bronx. In Fiscal Year 2012, DHS paid Aguila and its shelters \$51.2 million for a total of 462,141 Care Days, an average of \$110 per night, to provide housing to homeless families. Over the last two years, payments for Aguila-operated shelters grew \$10.8 million (23 percent) from \$46.3 million in Fiscal Year 2011 to \$57.1 million in Fiscal Year 2013. During the same period, direct payments to Aguila increased \$11.7 million to \$39.1 million, while direct payments to landlords and other vendors decreased by almost \$1 million to \$18 million.

This follow-up audit determined whether DHS has implemented the recommendations made in the previous audit, *Audit Report on the Department of Homeless Services' Controls Over Billing and Payments Made to Aguila, Inc.* (Audit No. FK10-130A) issued November 4, 2011. The previous audit found inadequate controls in place to ensure that all payments made to Aguila were accurate and sufficiently supported. The audit also found that DHS did not adequately monitor Aguila's fiscal and operational performance.

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<sup>1</sup> Source: DHS "Average Daily Census of All Individuals" served by DHS.

## Audit Findings and Conclusions

Our review of the implementation status of the 19 recommendations made in a prior audit determined that one recommendation was implemented, 10 recommendations were partially implemented, and eight recommendations were not implemented. A number of issues identified from the previous audit still exist.

### IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR AUDIT as of June 30, 2013

#	Recommendation	Status
1	Ensure that it conducts bi-monthly or bi-annual unit inspections and record reviews as required.	Partially Implemented
2	Ensure that Aguila maintains client sign-in logs or attendance records for all facilities.	Implemented
3	Investigate unsupported client-lodging days identified in this report and recoup payments as appropriate.	<u>NOT</u> Implemented
4	Recoup \$913,949 from Aguila related to improper expenditures.	Partially Implemented
5	Investigate insufficiently supported expenditures totaling \$9.1 million and recoup funds accordingly.	Partially Implemented
6	Periodically review Aguila financial records, including but not limited to inventory procedures and lists, allocation plans, contracts, and invoices, to ensure that reported expenditures are accurate, reasonable, appropriate, and adequately supported.	Partially Implemented
7	Enter into written contracts with Aguila for directly-operated facilities that, at minimum, specify or restrict how funds may be expended, delineate services to be provided, establish minimum performance standards, and detail remedies or termination clauses for failure to meet standards.	<u>NOT</u> Implemented
8	Ensure that sub-contracted services are covered by written contracts that, at a minimum, specify or restrict how funds may be expended, delineate services to be provided, and establish minimum performance standards.	Partially Implemented
9	Establish non-contracted facility per diem rates based upon audited line item operating budgets.	<u>NOT</u> Implemented
10	Review and approve Aguila sub-contracts for the performance of its obligations.	Partially Implemented
11	Ensure that Aguila sub-contracts contain provisions specifying that work performed by sub-contractors must be in accordance with the terms of master contracts between DHS and Aguila.	Partially Implemented
12	Obtain VENDEX questionnaires for vendors, including sub-contractors, whose aggregate annual contract values exceed \$100,000.	<u>NOT</u> Implemented
13	Ensure that facilities are inspected in accordance with DHS procedures.	Partially Implemented
14	Ensure that identified conditions are properly reported and followed up on in a timely manner.	Partially Implemented
15	Routinely check whether facilities have open violations and ensure that providers rectify open violations in a timely manner.	Partially Implemented
16	Cease placing clients in facilities with hazardous and unsanitary conditions.	<u>NOT</u> Implemented
17	Ensure that facility program reviews are conducted in accordance with DHS procedures.	<u>NOT</u> Implemented
18	Ensure that identified social service deficiencies are followed up on in a timely manner.	<u>NOT</u> Implemented
19	Require Aguila to develop improvement plans for facilities that do not meet housing placement targets.	<u>NOT</u> Implemented

We also identified other issues, which are discussed at the end of this report. Specifically, DHS needs to improve its inspection and review process, including monitoring of the client sign-in process, and current reconciliation process. Aguila needs to obtain written contracts from its suppliers and pay its City fines and water and sewer charges.

## **Audit Recommendations**

The follow-up audit makes 18 recommendations, including that DHS should:

- Ensure that it conducts bi-annual unit inspections and record reviews as required.
- Periodically review Aguila per diem rates, allocation plans, and budget line items to ensure accuracy, reasonableness, and appropriateness, and that items are adequately supported.
- Enter into written contracts with Aguila for directly-operated facilities that, at minimum, specify or restrict how funds may be expended, delineate services to be provided, establish minimum performance standards, and detail remedies or termination clauses for failure to meet standards.
- Ensure that sub-contracted services are covered by written contracts that, at minimum, specify or restrict how funds may be expended, delineate services to be provided, and establish minimum performance standards.
- Document the basis for all non-contracted facility per diem rates, whether based upon audited line item operating budgets or other factors considered.
- Immediately eliminate the practice of placing clients in facilities with hazardous and unsanitary conditions.
- Ensure that its staff reviews the Daily Attendance Rosters and the Monthly Certifications submitted by its shelter providers (not just Aguila) before authorizing payments to providers.
- Ensure that written contracts between Aguila and its suppliers have provisions specifying that all work performed must be in accordance with the terms of its master contracts with DHS.
- Ensure that all Aguila facilities pay their City fines and water and sewer charges.

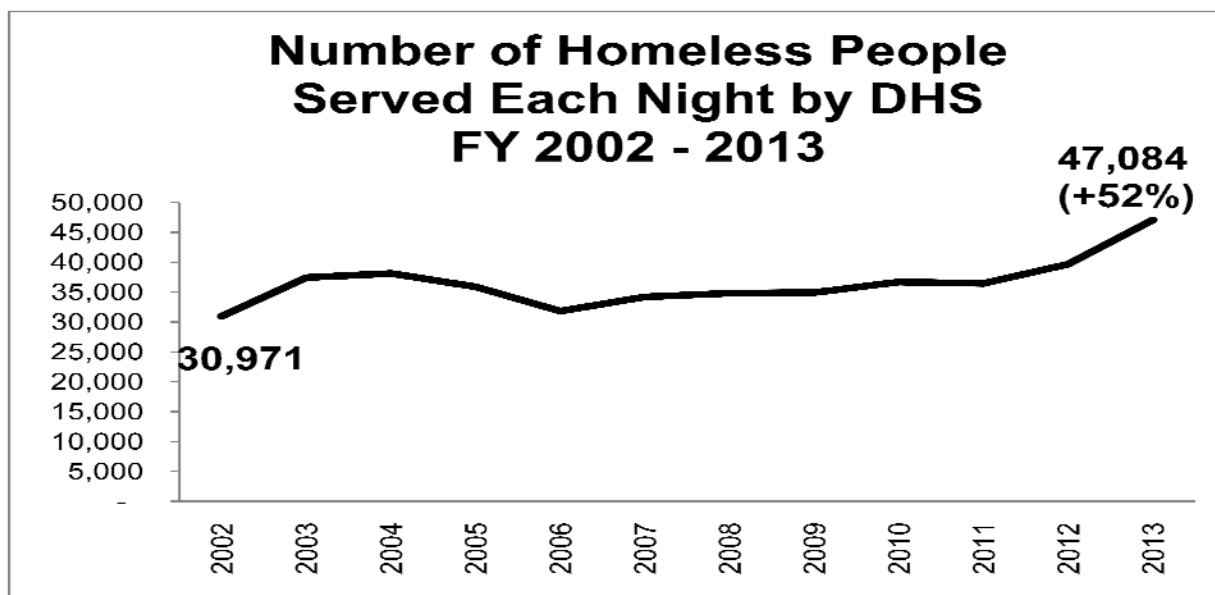
## **Agency Response**

In its response, DHS agreed with seven of the 18 recommendations, disagreed with five recommendations, and failed to address the remaining six recommendations.

# INTRODUCTION

## Background

The mission of the Department of Homeless Services (DHS) is to prevent homelessness when possible and to provide short-term, emergency shelter for individuals and families who have no other housing options available. Governed by a unique right to shelter mandate, New York City provides temporary emergency shelter to every man, woman, and child who is eligible for services, every night. Over the last 11 fiscal years, from 2002 through 2013, the number of homeless people served by DHS each night<sup>2</sup> has grown 52 percent, from 30,971 to 47,084 as shown below.



DHS provided temporary emergency shelter and social services to these eligible homeless adults and families through 81 providers at 239 sites in Fiscal Year 2013, including 67 for Single Adults, 18 for Adult Families, and 154 for Families with Children. Aguila, Inc. is one of its providers, currently housing homeless adult families and families with children in more than 40 sites in Manhattan and the Bronx. In Fiscal Year 2012, DHS paid Aguila and its shelters \$51.2 million for a total of 462,141 Care Days, an average of \$110 per night, to provide housing to homeless families. Over the last two years, payments for Aguila-operated shelters grew \$10.8 million (23 percent) from \$46.3 million in Fiscal Year 2011 to \$57.1 million in Fiscal Year 2013. During the same period, direct payments to Aguila increased \$11.7 million to \$39.1 million, while direct payments to landlords and other vendors decreased by almost \$1 million to \$18 million.

A prior Comptroller's audit entitled *Audit Report on the Department of Homeless Services' Controls Over Billing and Payments Made to Aguila, Inc.* (Audit No. FK10-130A) issued November 4, 2011, determined whether (1) payment and payment rates were reasonable, appropriate, and adequately supported; (2) Aguila satisfactorily provided shelter and social services for which it was paid; and (3) DHS adequately monitored Aguila to ensure that it satisfactorily provided shelter and social services for which it was paid.

<sup>2</sup> Source: DHS "Average Daily Census of All Individuals" served by DHS.



The previous audit found that DHS had inadequate controls in place to ensure that all payments made to Aguila were accurate and sufficiently supported. The audit also found that DHS did not adequately monitor Aguila's fiscal and operational performance. While DHS generally disagreed with the report's findings and recommendations, DHS stated that it would strengthen its monitoring of Aguila's fiscal and programmatic performance.

This follow-up audit determined whether DHS has implemented the recommendations made in the previous audit. In this report, we discuss all recommendations made in the prior audit as well as the current implementation status of each of the recommendations and other issues that were identified.

## **Objective**

The objective of this audit was to determine whether DHS implemented the recommendations made in the prior audit report.

## **Scope and Methodology Statement**

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. 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 follow-up audit covered the period July 1, 2011, through June 30, 2013. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

## **Discussion of Audit Results**

The matters covered in this report were discussed with DHS officials during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials and discussed at an exit conference held on September 12, 2013. On October 3, 2013, we submitted a draft report to DHS officials with a request for comments. We received a written response from DHS officials on October 22, 2013. In its response, DHS agreed with seven of the 18 recommendations, disagreed with five recommendations, and failed to address the remaining six recommendations.

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



## RESULTS OF FOLLOW-UP AUDIT

Our review of the implementation status of the 19 recommendations made in a prior audit determined that one recommendation was implemented, 10 recommendations were partially implemented, and eight recommendations were not implemented. We also identified other issues, which are discussed at the end of this report.

### **Previous Finding: “DHS Improperly Paid Aguila \$470,897 for Unsupported Client-Lodging Days”**

The previous audit found that DHS did not effectively monitor Aguila to ensure the accuracy of Aguila's monthly invoices and payments. We found that DHS did not review records bi-monthly or bi-annually as required in Fiscal Year 2010. In addition, DHS paid Aguila \$470,897 for 4,494 unsupported client-lodging days for one month (June 2010).

**Previous Recommendation #1:** “DHS should ensure that it conducts bi-monthly or bi-annual unit inspections and record reviews as required.”

**Previous DHS Response:** “The bi-monthly monitoring tool evaluation of hotels system-wide proved excessive. Thus, since January 2011, DHS has committed to performing monitoring tool evaluations semi-annually for all cluster sites and hotels. In response to Recommendation No. 1, DHS is establishing a plan to ensure that monitoring tool evaluations of all Aguila sites are conducted twice a year.”

### **Current Status: PARTIALLY IMPLEMENTED**

Since the previous audit, DHS has conducted Monitoring Tool Evaluations (MTEs) at all but three (14 percent) of 21 Aguila program sites. However, DHS has not conducted MTEs twice a year as prescribed by its procedures for six (29 percent) of 21 Aguila sites.

**Previous Recommendation #2:** “DHS should ensure that Aguila maintains client sign-in logs or attendance records for all facilities.”

**Previous DHS Response:** “DHS agrees with Recommendation No. 2 that the Agency ensure Aguila's maintenance of client sign-in logs or attendance records for all of its shelter facilities, including at all buildings comprising cluster programs. DHS has implemented a new procedure requiring all providers of cluster site programs, including Aguila, to ensure that their clients in standalone buildings sign daily log sheets and to submit them to DHS on a weekly basis. Going forward, the Agency will also closely monitor Aguila's compliance with this new procedure. DHS is also working with its cluster providers to develop a sign-in/sign-out process at non-standalone buildings.”

### **Current Status: IMPLEMENTED**

Since the prior audit, in December 2011, DHS replaced its Client Tracking System (CTS) with a new computer system, the Client Assistance and Rehousing Enterprise System (DHS CARES). While CTS was a system based upon paper records, DHS CARES has its data entered directly by providers, who are still required to maintain client sign-in sheets at their facilities. DHS CARES is

now relied upon for room occupancy management and billing/payments for all family shelters. We confirmed that all Aguila facilities completed Daily Attendance Rosters for April 2013 in DHS CARES. (For additional information, see Other Issues - DHS Needs to Improve Its Monitoring of the Client Sign-in Process.)

**Previous Recommendation #3:** “DHS should investigate unsupported client-lodging days identified in this report and recoup payments as appropriate.”

**Previous DHS Response:** “DHS disagrees with Recommendation No. 3 that DHS investigate the unsupported client-lodging days identified in the Report on the ground that the finding of unsupported care days is based solely on whether or not a care day was supported by a sign-in log or attendance sheet...the fact that a client’s signature does not appear on a sign-in log or attendance sheet for a particular day does not mean that the family did not reside in the shelter that day.”

**Current Status: NOT IMPLEMENTED**

DHS did not investigate and recoup payments for unsupported client-lodging days identified in the previous report. Despite its disagreement, DHS started a new auditing program in December 2012 to verify the attendance records at all of its 172 Adult Family and Families with Children provider sites. However, this new program would not be able to identify all discrepancies in Care Days because DHS officials stated that staff does not review provider-submitted Daily Rosters or Certification Reports (billing statements) to ensure that they are complete and accurate each month. In fact, during our review, we identified possible unsupported care days for one facility for April 2013.

DHS currently relies on its providers to accurately report absent clients. For example, according to DHS officials, providers are supposed to call DHS to “exit” the client if the client is absent for more than two days without an approved pass. However, if the provider calls, it will receive less money, and if the provider does not call, DHS would not be aware that it is paying for the unsupported Care Days (as much as \$122.80/night), which may not be identified in its reconciliation or new audit processes. (For additional information, see Other Issues - DHS Current Reconciliation Process May Be Inadequate.)

**Previous Finding: “DHS Should Recoup \$913,949 in Improper Payments and Investigate Unsupported Payments of \$9.1 million”**

The previous audit found that DHS failed to adequately review Aguila’s expenditures to ensure that they were accurate, reasonable, appropriate, and adequately supported, as required by the City Charter. Our review of Aguila’s financial records for two facilities with reported expenditures of approximately \$15.3 million (55 percent of Aguila’s total reported expenditures of \$27.9 million) found that Aguila’s support for a total of \$913,949 in expenditures was either missing or improper as follows: \$350,075 for administrative overhead; \$194,783 for unallowable expenses such as out-of-state meals, personal vehicles, and Board of Directors fees; \$156,415 for legal fees not supported by contracts or invoices; \$122,115 for loan interest expense (\$97,201 of which was not incurred during the fiscal year); and \$90,561 for utility charges that were the responsibility of the landlord.

Further, an additional \$9.1 million was insufficiently supported as follows: \$8.8 million for rental expenses not supported by leases or adequate monthly invoices; \$123,876 for goods and services not related to charged facilities; \$82,955 for goods not supported by invoices detailing delivery location; and \$72,357 for depreciation charges for vehicles, furniture and fixtures, equipment, and building improvements.

**Previous Recommendation #4:** “DHS should recoup \$913,949 from Aguila related to improper expenditures.”

**Previous Recommendation #5:** “DHS should investigate insufficiently supported expenditures totaling \$9.1 million and recoup funds accordingly.”

**Previous Recommendation #6:** “DHS should periodically review Aguila financial records, including but not limited to inventory procedures and lists, allocation plans, contracts, and invoices, to ensure that reported expenditures are accurate, reasonable, appropriate, and adequately supported.”

**Previous DHS Response:** “As part of the Agency’s regular audit protocol, DHS has scheduled a CPA audit of Aguila’s FY 10 expenditures under the Bronx Cluster and Parkview contracts. Given the auditors’ concerns and in response to Recommendation Nos. 4, 5, and 6 that the Agency conduct periodic review of Aguila’s expenditures, DHS will also instruct the CPA firm conducting the Bronx Cluster audit to follow up on the Draft Report’s findings concerning the Cluster’s expenditures.

With regard to the Bronx Neighborhood Cluster DHS stated “Pursuant to the close-out process, the Agency compared Aguila’s close-out expenditures to its approved fiscal year 2010 budget.

In addition to the close-out process, DHS utilizes several other tools to ensure that contract providers’ 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. Moreover, DHS’ Audit Services also conduct ‘expenditure reviews’ each year. The auditors randomly select a provider and examine documentation concerning all expenditures incurred by the provider during a randomly selected month within the past two years.

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 provide more than adequate monitoring and assurance with respect to shelter providers’ activities and use of City funds.

With regard to the Bronx Neighborhood Cluster, DHS stated, “Pursuant to a per diem arrangement with Aguila concerning the Annex Cluster, DHS pays Aguila an agreed-upon per diem rate per family based on shelter occupancy. Since the payment mechanism is not based on a line-item budget, DHS does not conduct a close out in connection with Aguila’s expenditures concerning the Annex.”

**Current Status (Recommendations #4 & #5): PARTIALLY IMPLEMENTED**

For recommendations #4 and #5, we confirmed that DHS hired a prequalified independent accounting firm, A.F. Paredes & Company, to audit the line item expenditures from Fiscal Year 2010 and conduct a review to determine whether DHS will recoup funding from Aguila based on the recommendations identified in the Comptroller's previous audit, including the \$913,949 in improper expenditures and \$9.1 million in insufficiently supported expenditures. The A. F. Paredes & Company Final Report, issued February 4, 2013, tested most of the items<sup>3</sup> in the Comptroller's previous audit and confirmed that rental expenses were not supported by leases. It recommended that DHS should recoup a total of \$558,412 from Aguila.

Subsequently, we confirmed that by June 2013, DHS had recouped the \$558,412 from Aguila. In addition, we confirmed that Aguila entered into a lease agreement for the Bronx Cluster facilities, effective through June 30, 2013. However, DHS did not investigate all expenditures previously identified as insufficiently supported and recoup all of the funds related to improper expenditures identified in the previous audit.

**Current Status (Recommendation #6): PARTIALLY IMPLEMENTED**

We confirmed that DHS reviews Aguila's financial and operational records for contracted sites periodically during its annual close-out process for final payments. However, because DHS does not require (or review) line item budgets or allocation plans for Aguila non-contracted sites, which are paid on a per diem basis, DHS may be overpaying for the services provided.

**Previous Finding: "DHS Failed to Contract with Aguila for Shelter and Social Services Costing \$10.3 Million"**

The previous audit found that for six of eight directly-operated facilities, DHS failed to contract with Aguila for provision of shelter and social services costing \$10.3 million in Fiscal Year 2010. Instead, DHS operated using unwritten agreements in violation of the New York City Charter and Procurement Policy Board (PPB) Rules. DHS maintains that its "*per diem* arrangement with a shelter operator does not constitute a procurement within the meaning of the City Charter, Administrative Code or PPB Rules." For eight additional facilities, Aguila provided social services to homeless families as a sub-contractor for the Lapes Group without a written agreement. By allowing Aguila to provide social services through a network of unwritten agreements, DHS has further weakened its ability to monitor and hold parties responsible for fiscal and programmatic performance.

***Previous Recommendation #7:*** "DHS should enter into written contracts with Aguila for directly operated facilities that at minimum specify or restrict how funds may be expended, delineate services to be provided, establish minimum performance standards, and detail remedies or termination clauses for failure to meet standards."

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<sup>3</sup> The Paredes review procedures covered only Fiscal Year 2010, while the Comptroller's previous audit also covered Fiscal Year 2009 (July 1, 2008 – June 30, 2009). In addition, it did not test half of the \$10 million in the Comptroller's audit because it did not include a review of amounts related to the Bronx Annex.

**Previous DHS Response:** “DHS disagrees with Recommendation No. 7 in that it is based on the Draft Report’s finding that DHS’ use of shelter facilities pursuant to per diem arrangements violates the City Charter, Administrative Code and Procurement Policy Board (PPB) Rules. As we have discussed at length in response to previous Comptroller audits and in correspondence with the Comptroller, and as DHS has asserted in a pending lawsuit filed by the Comptroller against the City,\* it is the City’s long-standing legal position that DHS’ per diem arrangement with a shelter operator does not constitute a procurement within the meaning of the City Charter, Administrative Code or PPB Rules. Accordingly, DHS is not required to execute or register a contract for the provision of shelter before referring homeless families to facilities operated pursuant to a per diem arrangement.

\* See March 25, 2010 Audit Report, Addendum at 3-4 (which, in turn, cites (1) the Law Department’s Legal Opinion, referenced in the City’s October 1, 2003 response to the Comptroller’s Audit Report of DHS controls over payments to hotel and scatter-site housing providers (FM03-123A), to the effect that under the Agency’s per diem arrangements with shelter operators, DHS is not procuring any ‘client services’ or ‘other services’ within the meaning of the PPB Rules); (2) 2003-2009 correspondence between the Comptroller and DHS; and (3) the City’s papers submitted in the pending litigation in *Westchester Square/Zerega Improvement Org., Inc. v. Hess, et al.*, Index No. 260573/09 (Sup. Ct., Bronx Co. 2009, Wright J.).

“While per diem payment arrangements are thus lawful, DHS agrees that, as a matter of policy, the Agency should continue moving toward establishing contracts for its facilities to the extent shelter demand, existing capacity, provider willingness and fiscal constraints allow.”

#### **Current Status: NOT IMPLEMENTED**

We confirmed that DHS did not enter into signed written agreements for shelter services with 17 Aguila sites and instead has per diem arrangements. In June 2013, a court decision was rendered in the litigation between the City and the Comptroller reaffirming that DHS is required to register written contracts for the provision of shelter before referring homeless clients to facilities operated pursuant to a per diem arrangement. On July 24, 2013, the City filed an appeal, and the Comptroller agreed to permit DHS to make payments under its prior per diem arrangements until the appeal is decided or December 31, 2013, whichever comes first.

**Previous Recommendation #8:** “DHS should ensure that sub-contracted services are covered by written contracts that at a minimum specify or restrict how funds may be expended, delineate services to be provided, and establish minimum performance standards.”

**Previous DHS Response:** “DHS agrees with Recommendation No. 8 to the extent that the Agency will ensure that Aguila complies with the subcontracting provisions of its contracts to operate the Bronx Cluster and the Parkview Hotel.”

#### **Current Status: PARTIALLY IMPLEMENTED**

DHS did not address its lack of sub-contracts for services provided to DHS clients at Aguila’s non-contracted sites. For its contracted sites, Aguila has a few lease agreements, two subcontracts for security, and a management contract with Housing Solutions USA. However, while Aguila provides

services as a subcontractor at its non-contracted sites, it did not enter into signed written agreements with any of these facilities. (For additional information, see Other Issues - Aguila Should Obtain Written Contracts from Its Suppliers.)

**Previous Finding: “DHS Failed to Ensure that Non-Contracted Payment Rates Were Reasonable, Appropriate, and Adequately Supported”**

The previous audit found that DHS failed to ensure that non-contracted facility payment rates were reasonable, appropriate, and adequately supported. Although DHS calculates contracted facility per diem rates based upon line-item operating expense budgets, DHS does not apply this methodology to non-contracted facilities.

***Previous Recommendation #9:*** “DHS should establish non-contracted facility per diem rates based upon audited line-item operating budgets.”

***Previous DHS Response:*** “DHS disagrees with Recommendation No. 9 in that it is based on the Draft Report’s finding that the Agency ‘failed to ensure that non-contracted payment rates were reasonable, appropriate and adequately supported.’ The Draft Report bases this finding solely on the fact that the per diem rate for the Annex Cluster would have been lower had the rate been based on expenses established pursuant to a line-item budget. As explained above, payments made to non-contracted providers pursuant to per diem arrangements are not governed by line-item budgets. Moreover, the Draft Report did not find fault with the per diem rate of the other non-contracted Aguila sites. As is the case here, it is inevitable that, depending on the particular landlord, the location of the shelter site, and the economic factors at play at any given point in time, per diem rates are bound to vary with some below the average and some above. That the Annex Cluster per diem rate fell within the high end of the range is hardly a basis for concluding that DHS failed to ensure that non-contracted payment rates were reasonable, appropriate and adequately supported.”

**Current Status: NOT IMPLEMENTED**

We confirmed that DHS did not implement this recommendation and, in response to our questions, DHS officials stated that the per diem rates “are calculated in accordance with the *Guidelines for the Expansion for Capacity*<sup>4</sup>.”

Furthermore, because DHS did not provide documentation regarding how it set the rate for each shelter, it is not clear how DHS arrived at the exact rates it pays in Fiscal Year 2013, i.e., \$106.07 at Shelter #1. The rate is above the “\$90 per diem for room and board” specified in the *Guidelines for the Expansion of Capacity* and does not even include board services.

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<sup>4</sup> *Guidelines for the Expansion of Capacity*, dated April 2009, sets out the guidelines for bringing on additional shelter capacity when needed. The guidelines state that DHS will pay the building operator a standard per diem rate of \$90 for room and board and no more than minimal social services (the “billing rate”). According to DHS officials, to the extent that certain per diem rates vary, some per diem rates were negotiated before the April 1, 2009, *Guidelines for the Expansion of Capacity* were implemented. Additionally, depending on the particular landlord, the location of the shelter site, and the economic factors at play at any given point in time, per diem rates may vary with some below the average and some above. The per diem rate paid to building operators for non-contracted shelter facilities includes an amount for room and board and no more than minimal social services. DHS does not set the rates for the provision of those services, except to advise the building operator that no more than \$6 per family per day should be spent on such services.



According to the April 2013 billing statements (Certifications), Shelter # 1 billed \$473,386 and Shelter #2 billed \$67,541. Both of these shelters house adult families in Manhattan. While occupancy rates may vary from month to month at each shelter, in April 2013, the more expensive shelter not only had the most units but also had the highest estimated occupancy rate as shown in Table 1.

**TABLE 1**  
**Estimated Occupancy Rates for Select Aguila Shelters**  
**April 2013**

Aguila Shelter	# of Units	\$ Rate	Billed in April	# of Days	Care Days		Occupancy Rate
					Available (Units* Days)	Total Billed	
Shelter #1	153	\$106.07	\$473,386	30	4,590	4,463	97%
Shelter #2	39	\$60.09	\$67,541	30	1,170	1,124	96%

As noted earlier, DHS may choose to vary rates from shelter to shelter due to “the particular landlord, the location of the shelter site, and the economic factors at play at any given point in time,” but that does not lessen DHS’s responsibility to ensure that each rate is reasonable, appropriate, and adequately supported by documenting its decision-making process, including the unique factors considered.

**Previous Finding: “DHS Failed to Review and Approve Aguila Facility Leases and Security Contracts”**

The previous audit found that DHS failed to review and approve Aguila’s leases and security contracts. Aguila reported lease and security expenditures of \$17.2 million and \$2.3 million, respectively. Under the terms of its written contracts, DHS stipulated that Aguila:

“Not to enter into any sub-contracts for the performance of its obligations, in whole or in part, under this Agreement without the prior written approval of the Department....All such sub-contracts shall contain provisions specifying: that the work performed by the sub-contractor must be in accordance with the terms of the Agreement between the Department and the Contractor.”

However, DHS did not ensure that Aguila obtained such approval. Furthermore, DHS failed to investigate Aguila sub-contractors in accordance with the New York City Administrative Code Title 6, Chapter 1. The Code requires DHS to obtain VENDEX questionnaires for vendors, including sub-contractors, whose aggregate annual contract values exceed \$100,000. Additionally, DHS cannot be assured that Aguila sub-contracts do not violate Conflict of Interest terms and regulations.

***Previous Recommendation #10:*** “DHS should review and approve Aguila sub-contracts for the performance of its obligations.”

***Previous Recommendation #11:*** “DHS should ensure that Aguila sub-contracts contain



provisions specifying that work performed by sub-contractors must be in accordance with the terms of master contracts between DHS and Aguila.”

**Previous Recommendation #12:** “DHS should obtain VENDEX questionnaires for vendors, including sub-contractors, whose aggregate annual contract values exceed \$100,000.”

**Previous DHS Response:** “DHS agrees with these recommendations with respect to sub-contracts Aguila enters into for performance of its obligations under its contract with DHS to operate the Bronx Cluster and its contract with the Agency to operate the Parkview shelter...” “DHS does not agree with these recommendations with respect to non-contracted sites and, in that regard, reiterated its response to Recommendation No. 7, above.”

**Current Status (Recommendations #10 & #11): PARTIALLY IMPLEMENTED**

While DHS did provide a few lease agreements, two security sub-contracts and a management contract between Aguila and Housing Solutions USA, it did not ensure that Aguila enter into signed agreements with all of its vendors and sub-contractors, especially those providing services at non-contracted facilities. Without signed agreements, Aguila would not be able to enforce provisions specifying that work performed by sub-contractors must be in accordance with the terms of its master contracts with DHS. (For additional information, see Other Issues - Aguila Should Obtain Written Contracts from Its Suppliers.)

**Current Status (Recommendation #12): NOT IMPLEMENTED**

We found that DHS, in Fiscal Year 2012, paid a total of \$50.6 million to 11 vendors (more than \$100,000 each) for Aguila-operated shelters, including \$32 million directly to Aguila and \$18.6 million directly to 10 other vendors. DHS had obtained and posted a VENDEX questionnaire for Aguila (along with evaluations on its three contracts, which ranged from “Fair” to “Good”), but not for the 10 other vendors. Therefore, DHS inappropriately paid \$18.6 million to other vendors that had not been processed through VENDEX as required.

VENDEX questionnaires include questions about business ownership and related entities. In reviewing Routine Site Review Inspections (RSRI) reports, we noted that 13 of 18 buildings used as shelters by Aguila appear to be operated by the same individual even though each building has different ownership. VENDEX questionnaires are intended to disclose ownership and other relationships among potential vendors in order to assess their business integrity. By not obtaining and filing VENDEX questionnaires, it is possible that DHS inappropriately paid \$18.6 million to vendors owned or operated by people or companies that should not have been doing business with the City.

In addition, in March 2012, Aguila entered into a one-year contract<sup>5</sup> with Housing Solutions, whose aggregate annual contract value exceeds \$100,000, to provide management services that relate to Aguila’s housing services for the homeless. However, Housing Solutions did not submit a VENDEX questionnaire until March 2013 (a year later).

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<sup>5</sup> This management contract automatically renews itself for additional one-year terms in perpetuity unless Aguila notifies Housing Solutions of its intent not to renew on or prior to a date that is 30 days prior to the expiration of the current term.

## **Previous Finding: “DHS Did Not Effectively Monitor Aguila’s Operational Performance”**

The previous audit found that DHS did not effectively monitor Aguila’s operational performance to ensure that Aguila housed clients in safe and sanitary conditions and transitioned its clients to permanent housing in a timely manner. Although DHS established objectives regarding shelter conditions and length of shelter stay, it did not adequately monitor and properly evaluate Aguila to ensure that it met objectives, as follows:

### **DHS Did Not Adequately Monitor Aguila to Ensure It Housed Clients in Safe and Sanitary Conditions**

***Previous Recommendation #13:*** “DHS should ensure that facilities are inspected in accordance with DHS procedures.”

***Previous Recommendation #14:*** “DHS should ensure that identified conditions are properly reported and followed up on in a timely manner.”

***Previous DHS Response:*** “...The Agency [DHS] has formed a special unit... comprised of inspectors from a different Agency division than the employees who had been conducting cluster inspections. The new unit will re-inspect every cluster unit in the Bronx Cluster and the Annex Cluster. In addition, the Agency is developing a staffing plan for conducting physical inspections of cluster units comprising the cluster programs of all cluster providers, including Aguila, which will be implemented in the fall. DHS will also be working toward implementing software that will allow the Agency to identify inspection patterns requiring further analysis. Finally, it should be noted that the cluster units that were the subject of inspection reports called into question in the Draft Report were also inspected by the Family Services Division on a quarterly basis throughout CY 2010.

“While DHS does not have any reason to believe that the RSRI inspection reports concerning Aguila sites do not accurately reflect the conditions noted, in an exercise of caution, the special unit will review these reports to ensure that the rating assigned to reflect the overall condition of the facility is consistent with the physical conditions noted in the report.

“As noted in response to Recommendation No. 1, above, DHS is currently finalizing a plan to ensure bi-annual monitoring tool evaluations of Aguila sites.”

### **Current Status (Recommendation #13): PARTIALLY IMPLEMENTED**

Since the previous audit, DHS has conducted inspections at all Aguila program sites through its RSRI and Cluster Unit Inspections, though it has not conducted RSRI twice a year for three (16 percent) of 19 Aguila sites as prescribed by its procedures. In addition, DHS has conducted MTEs at only 18 (86 percent) of 21 Aguila program sites and did not conduct MTEs twice a year as prescribed by its procedures for six (29 percent) of the sites.

In addition, according to DHS’s Implementation Plan dated December 4, 2012, DHS formed a special Cluster Inspection Unit, which has re-inspected all Aguila cluster units. While the cluster unit group has performed inspections of 554 units, we noted that DHS indicated that 82 percent of these 1,367 inspections resulted in failed inspections. Our review of inspection reports for sampled units found that over 80 percent of the inspections failed due to hazardous conditions with all but one of the sampled units failing at least one of their inspections due to hazardous conditions.

While DHS officials stated that DHS has no written policy or procedure for how to conduct MTEs, RSRI, and Cluster inspections, DHS does provide detailed checklists to its staff to fill out for each of these inspections. For example, the RSRI inspectors have a detailed 18-page checklist for each building, the first page of which explains the Category Definitions and Scoring Methodology. The Cluster Unit inspectors have a 19-page checklist for each unit from the Department of Housing and Urban Development (HUD). We conclude that DHS staff is doing a systematic inspection of the units they inspect based upon the RSRI inspection we observed and the Cluster Inspection Reports we reviewed. Further, our research from other cities confirms that most cities also rely on HUD and local building standards for their own inspections. (For additional information, see Other Issues - DHS Needs to Improve Its Inspection Process.)

DHS officials informed us that it is in the process of setting up a database to manage and track all hazardous conditions and follow-up activity identified in physical inspections and evaluations, while allowing for closer monitoring of recurring deficiencies.

**Current Status (Recommendation #14): PARTIALLY IMPLEMENTED**

DHS agreed with this recommendation and stated in its Implementation Plan, “DHS follows up and corrects identified conditions in a timely manner.” We found that through its MTEs, RSRI, and Cluster Inspections, DHS identifies conditions in its shelters that are unsatisfactory and makes sure they are properly reported and that Corrective Action Plans are submitted by Building Operators in a timely manner.

However, DHS failed to ensure that all of the items identified as “unsatisfactory” during its RSRI are actually corrected by the building operators. We found the same “unsatisfactory” items uncorrected on subsequent Corrective Action Plans at eight (42 percent) of the 19 Aguila facilities. For example, DHS failed to ensure that all Aguila facilities not in compliance with requirements for fire drills and/or fire safety plans complied after the problem was identified, potentially placing the safety of homeless families at risk. In addition, for Cluster Inspections, we found that eight (32 percent) of 25 sampled units failed multiple inspections for the same hazardous condition, which indicates that the original conditions had not been corrected.

**Previous Recommendation #15:** “DHS should routinely check whether facilities have open violations and ensure that providers rectify open violations in a timely manner.”

**Previous DHS Response:** “The Agency also is requiring Aguila to develop a corrective action plan to address all outstanding building violations in a timely manner.”

**Current Status: PARTIALLY IMPLEMENTED**

DHS provided a listing of Aguila Corrective Action Plans for Department of Buildings (DOB), Housing Preservation and Development (HPD), and Environmental Control Board (ECB) violations for both its contracted and non-contracted facilities. Our analysis confirmed DHS’s data that there are 1,565 HPD open violations, including 376 (24 percent) Class C (Hazardous) violations on the 43 Aguila-operated buildings used by DHS as shown in Table 2.

**Table 2**  
**HPD Open Violations in Aguila-Operated Buildings**  
**as of June 2013**

Type of Violations	Total	When Violations Issued			
		Less Than One Year Ago	Percent	More Than One Year Ago	Percent
<b>Total (Class A, B, C)</b>	1,565	311	20%	1,254	80%
<b>Hazardous (Class C)</b>	376	51	14%	325	86%
<b>Percent</b>	24%	16%		26%	

However, further analysis found that 1,254 (80 percent) of the 1,565 HPD open violations were issued more than a year ago, including 325 (86 percent) of the 376 hazardous violations. While DHS has Corrective Action Plans in writing from Aguila, it fails to ensure that Aguila is actually correcting the problems that resulted in these violations in a timely manner. (For additional information, see Other Issues – Aguila Facilities Are Not Complying.)

**Previous Recommendation #16:** “DHS should cease placing clients in facilities with hazardous and unsanitary conditions.”

**Previous DHS Response:** “Contrary to the premise underlying Recommendation No. 16, DHS places clients only in facilities that are safe, decent and clean.”

**Current Status: NOT IMPLEMENTED**

As discussed earlier in this report, we found that DHS places clients in Cluster apartments that had failed more than 80 percent of DHS’s inspections due to “hazardous” conditions, as well as in 43 Aguila-operated buildings that have a total of 1,565 HPD open violations, including 376 open violations that HPD classifies as hazardous. As mentioned earlier in this report, DHS officials informed us that DHS is in the process of setting up a database to manage and track all hazardous conditions and follow-up activity identified in physical inspections and evaluations, allowing for closer monitoring of recurring deficiencies.

#### **DHS Did Not Adequately Monitor Aguila to Ensure It Transitioned Clients to Permanent Housing in a Timely Manner**

**Previous Recommendation #17:** “DHS should ensure that facility program reviews are conducted in accordance with DHS procedures.”

**Previous DHS Response:** “DHS did not address this recommendation. Instead, DHS stated “With respect to Recommendation No. 17, the Draft Report points to a provision in Aguila’s shelter contracts stating that the maximum length of stay for residents shall not exceed six months and that the Provider’s ability to place a family in permanent housing within this time frame ‘may be a factor in evaluating the Contractor’s performance.’ This finding is based upon the number of Aguila’s clients who, as of June 2010, had resided in shelter for more than 6 months. However, as we advised the auditors in writing after the exit conference, consistent with the contract provision, DHS set targets for Aguila to move families out of shelter as expeditiously as possible and imposed financial penalties on

Aguila when it failed to do so. Also, as noted above, DHS is completing a plan to heighten its monitoring of the Provider's progress toward addressing programmatic deficiencies.”

**Current Status: NOT IMPLEMENTED**

Program reviews are conducted as part of DHS's MTE process. However, despite not meeting targets, not only did DHS officials confirm that DHS did not impose any financial penalties on Aguila in Fiscal Year 2012, but it also failed to conduct required program reviews since it had no MTEs for three (14 percent) of 21 Aguila program sites for more than a year, as noted earlier in this report. (For additional information, see Other Issues - DHS Needs to Improve Its Inspection Process.)

**Previous Recommendation #18:** “DHS should ensure that identified social service deficiencies are followed up on in a timely manner.”

**Previous Recommendation #19:** “DHS should require Aguila to develop improvement plans for facilities that do not meet housing placement targets.”

**Previous DHS Response:** “Recommendations Nos. 18 and 19 are based on the Draft Report's findings that the Agency did not conduct monitoring tool evaluations as frequently as required or conduct sufficient follow up of program deficiencies identified in the evaluations. As we advised the auditors in writing following the exit conference at which these recommendations were discussed, DHS Family Services staff works with all of its shelter providers, including Aguila, on an ongoing basis throughout the year to ensure that maximum efforts are made to return shelter clients to the community as expeditiously as possible. By means of e-mail, telephone and in-person communication between Aguila staff and Family Services staff, DHS follows up on shelters' responses to Monitoring Tool evaluations and physical site inspections. Through these various forms of communication, the Agency provides technical assistance to Aguila sites on a host of issues, including areas identified in Monitoring Tools, physical inspections and other procedures that DHS has instituted to track and improve Aguila's delivery of service to shelter clients.”

“In addition, as we explained at the audit exit conference and in writing thereafter, Family Services staff and Aguila staff are in constant communication (via e-mail, telephone and in-person meetings) about individual shelter clients to resolve issues that impede these clients' exit from shelter ... Thus, the lack of a Monitoring Tool for a particular two-month period or the lack of a corrective action plan in response to a particular Monitoring Tool does not indicate that DHS failed to effectively monitor a particular Aguila site or that a particular Aguila shelter failed to take corrective action in response to an evaluation. Given the auditors' concerns and as noted in response to Recommendation Nos. 4-6 above, DHS is establishing a plan to further heighten its monitoring of the Providers' progress toward addressing programmatic deficiencies.”

**Current Status (Recommendations #18 & #19): NOT IMPLEMENTED**

Despite “constant communication about individual shelter clients,” by not conducting MTEs twice a year at each facility as required, DHS may fail to identify program-wide deficiencies at its Aguila-operated shelters. Through the MTE review process, DHS can identify program deficiencies and ensure that a Corrective Action Plan is developed to address the deficiencies in a timely manner. However, as stated earlier in this report, DHS has not completed MTEs for three (14 percent)

of 21 facilities in more than a year. Consequently, social service deficiencies may not have been identified and improvement plans for facilities may not have been developed in a timely manner.

## Recommendations

To address the issues that still exist, DHS should:

1. Ensure that it conducts bi-annual unit inspections and record reviews as required.

**DHS Response:** *DHS officials agree with this recommendation. “DHS Adult Services began conducting MTEs at contracted adult family shelters in April 2013 and will conduct MTEs for all non-contracted adult family shelters starting in Fall 2013. ... Going forward, MTEs will be conducted at all family and adult family shelters on a bi-annual basis.”*

2. Periodically review Aguila per diem rates, allocation plans, and budget line items to ensure accuracy, reasonableness, and appropriateness, and that items are adequately supported.

**DHS Response:** *DHS officials failed to address this recommendation.*

**Auditor Comment:** *DHS officials pointed out that “non-contracted shelters operate pursuant to per diem arrangements, and not line item budgets.” Regardless of how rates are set, by contract or by per diem arrangements, it is important to periodically review the cost of the services provided by suppliers to ensure that the City receives the promised services from contracted and non-contracted suppliers alike, even when rates remain constant over time. As an example, the “Guidelines’ \$90 rate” was set more than four years ago in April 2009, yet non-contracted suppliers are expected to provide the same services. Without a review of the costs of said services as affected by changing economic conditions, DHS cannot ensure that the rates it is paying are reasonable and appropriate.*

3. Further investigate and recoup the balance of funds not recouped that were identified in our previous audit.

**DHS Response:** *DHS officials failed to address this recommendation.*

**Auditor Comment:** *DHS officials reiterated what the agency had already done. “DHS contracted with independent accounting firm, A.F. Paredes & Co. to perform an audit of the expenditures recommended by the Comptroller for Aguila’s contracted shelters, namely Bronx Neighborhood Cluster and the Parkview Hotel. DHS agreed to recoup any expenditures recommended by Paredes during their audit. Paredes recommended that DHS recoup \$558,412 from Aguila, and to date, DHS has recouped the entire recommended amount.” While DHS recouped money from Aguila, it disagreed with the findings in both the Paredes audit as well as the Comptroller’s prior audit.*

*As we pointed out earlier in this report and discussed at the exit conference, the Paredes review procedures covered only Fiscal Year 2010, while the Comptroller’s previous audit also covered Fiscal Year 2009 (July 1, 2008, – June 30, 2009). In*



*addition, Paredes did not test half of the \$10 million in the Comptroller's audit because it did not include a review of amounts related to the Bronx Annex; therefore, we reiterate our recommendation.*

4. Enter into written contracts with Aguila for directly-operated facilities that, at minimum, specify or restrict how funds may be expended, delineate services to be provided, establish minimum performance standards, and detail remedies or termination clauses for failure to meet standards.

**DHS Response:** *DHS officials disagree with this recommendation “. . . in that it is based on the 2011 Audit's finding that the use of shelter facilities pursuant to per diem arrangements violates the City Charter, Administrative Code and Procurement Policy Board Rules ... The City filed a Notice of Appeal ... on July 16, 2013.”*

**Auditor Comment:** *At the exit conference, DHS officials agreed with this recommendation as long as it applied to “Aguila directly-operated facilities.” Throughout DHS's response, the agency differentiates between contracted and non-contracted sites as far as required performance standards, sub-contracting, and restrictions on how City funds may be used.*

*While it may be convenient to split the shelter facilities into these two groups, both groups of homeless facilities are managed by the same people (we found cases where both contracted and non-contracted Aguila-run shelters have the same contact on RSRI reports); house the same type of clients (Adult Family and Families with Children); share the same storage facilities and staff; and are paid for with the same City dollars (both through Aguila and directly to the building owners). However, one difference we found between contracted and non-contracted facilities is that all equipment purchased by a contracted facility for \$5,000 or more with funds from DHS contracts must be inventoried and tagged as property of the City of New York, while this same equipment purchased by a non-contracted facility belongs to the facility. All Aguila facilities (contracted and non-contracted) are supposed to provide the same type of services and, according to DHS officials, “ensure that maximum efforts are made to return shelter clients to the community as expeditiously as possible.”*

*Most of Aguila's non-contracted facilities came into being around 2009 as homelessness was increasing in the City and “Guidelines for Expansion” were issued. However, more than four years later, these guidelines are still being used in lieu of regular contracts. DHS has not adequately explained why only one group of facilities (contracted) should have restrictions and be held to a higher standard (City Charter, Administrative Code, and PPB Rules), while the other group of facilities (non-contracted) may use its per diem payments from the City (through DHS) any way it wants without any oversight of the cost and quality of services provided, especially when all of the facilities are run by the same Provider (Aguila).*

5. Ensure that sub-contracted services are covered by written contracts that, at minimum, specify or restrict how funds may be expended, delineate services to be provided, and establish minimum performance standards.

**DHS Response:** *DHS officials agree with this recommendation for contracted sites and disagree with this recommendation for non-contracted sites. “DHS ensures that*



providers with whom it contracts comply with their contractual obligations. Since the 2011 Audit, Aguila has executed leases for shelter buildings for Freedom House, Fulton Family Residence, Bronx Neighborhood Cluster and the Parkview – all contracted sites. ... As to non-contracted sites, DHS maintains its disagreement with this recommendation.”

**Auditor Comment:** In its response, DHS again differentiates between contracted and non-contracted sites as far as required performance standards, sub-contracting, and restrictions on how City funds may be used. In addition, DHS maintains that there are no other sub-contracted services at contracted facilities and that its management agreement with Housing Solutions USA is not a sub-contract because it does not provide shelter services, but merely runs Aguila.

As of July 1, 2012, Aguila is contracted to pay more than \$720,000 annually to Housing Solutions USA to perform services (with unspecified deliverables) as an independent contractor, yet its staff are listed on Aguila’s website as CEO, President, Chief Operating Officer, Director of Program Services, and Executive Operations Manager. Because the City is Aguila’s primary source of funds, it is not clear what funds are being used to pay for this contract or what services are being provided.

6. Document the basis for all non-contracted facility per diem rates, whether based upon audited line item operating budgets or other factors considered.

**DHS Response:** DHS officials failed to address this recommendation.

**Auditor Comment:** In its response, DHS officials responded to a recommendation from the prior audit that non-contracted facility per diem rates should be based upon audited line item operating budgets, stating, “it was based on the erroneous premise that per diem rates for non-contracted facilities would have been lower had the rate been based on expenses established pursuant to a line item budget.”

This current recommendation does not specify how DHS should determine its per diem rates for each facility, merely that the agency should document why the rate is set above or below the “\$90 per diem for room and board” specified in the Guidelines for the Expansion of Capacity, i.e., other factors considered, as well document management approval and the date upon which the rates was set.

7. Obtain VENDEX questionnaires for vendors, including sub-contractors, whose aggregate annual contract values exceed \$100,000 as required.

**DHS Response:** DHS officials agree with this recommendation for contracted sites and disagree with this recommendation for non-contracted sites. “NYC Administrative Code requires a VENDEX for every ‘contract for goods and services.’ ... Therefore, DHS is not required to process its non-contracted vendors through VENDEX.”

**Auditor Comment:** While DHS officials stated that they agree with this recommendation for contracted sites, the agency failed to obtain VENDEX questionnaires from building owners (sub-contractors) paid millions of dollars for both contracted sites, such as Parkview, Fulton Family, and Freedom House as well as for non-contracted sites.

8. Immediately eliminate the practice of placing clients in facilities with hazardous and unsanitary conditions.

**DHS Response:** *DHS officials disagree with this recommendation “in that the Agency places homeless families only in facilities that are safe, decent, and clean.” In addition, they point out that “Aguila, like all contracted providers, are required by the terms of their contract to check and remedy all open DOB/HPD/ECB violations. With regard to non-contracted facilities, Aguila tracks these violations, and landlords are expected to remedy all violations expeditiously. The HSS Cluster Inspection Unit also addresses certain HPD, DOB, and DOHMH violations with respect to cluster units; ... If any of these conditions exist, the Cluster Inspection Unit immediately notifies HERO so that the unit is taken offline and the family is transferred to another unit.”*

**Auditor Comment:** *Since the last audit, DHS has increased its efforts to ensure that Aguila-operated facilities are “safe, decent, and clean” by now conducting inspections (RSRIs) every six months, establishing its Cluster Inspection Unit in January 2012, and recently (July 2013) implementing a new database to better track hazardous conditions at facilities.*

*While DHS is conducting RSRIs, “Unsatisfactory” items on RSRIs were uncorrected on subsequent Corrective Action Plans at eight (42 percent) of the 19 Aguila facilities as evidenced by DHS inspectors citing the same issues at later dates. For example, DHS failed to ensure that six (32 percent) of the Aguila facilities had fire safety plans and/or fire drills. Also, as mentioned earlier in this report, 325 (86 percent) of the 376 hazardous HPD violations issued to Aguila-operated buildings were still open more than a year after they were issued. This suggests that these facilities still have hazardous conditions that have not been remedied “expeditiously.” In addition, for Cluster Inspections, we found that eight (32 percent) of 25 sampled units failed multiple inspections for the same condition, indicating that the original condition had not been corrected. These conditions included repeated infestations and heating hazards.*

*In addition, at the exit conference, DHS officials stated that inspectors reviewed facility DOB/HPD/ECB violations as part of their RSRIs<sup>6</sup>. However, while DHS provided us with listings of thousands of DOB/HPD/ECB violations, including hundreds of open violations, for the Aguila Facilities, no violations were noted on any of the RSRIs we reviewed until recently in July 2013. With the implementation of its new database, DHS inspectors may be more equipped to follow up on these outstanding issues so that DHS can better implement this recommendation.*

9. Expedite the implementation of the new database to ensure that clients are not placed in facilities with hazardous and unsanitary conditions.

**DHS Response:** *DHS officials failed to address this recommendation.*

**Auditor Comment:** *At the exit conference, DHS officials agreed with this recommendation.*

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<sup>6</sup> On page 17 of the RSRI checklist there is a section labeled VIOLATIONS with lines for Building Department, Fire Department, Health Department, and OTDA/State.

10. Ensure that facility program reviews are conducted in accordance with DHS procedures.

**DHS Response:** *DHS officials agree with this recommendation. “DHS Adult Services began conducting MTEs at contracted adult family shelters in April 2013 and will conduct MTEs for all non-contracted adult family shelters starting in Fall 2013. ... Going forward, MTEs will be conducted at all family and adult family shelters on a bi-annual basis.”*

11. Ensure that identified social service deficiencies are followed up and corrected in a timely manner.

**DHS Response:** *DHS officials agree with this recommendation, stating, “the Agency provides technical assistance to Aguila on a host of issues, including areas identified in the monitoring tools, physical inspections and other procedures used to track and improve Aguila’s delivery of service to shelter clients.”*

## Other Issues

### DHS Needs to Improve Its Inspection and Review Process

(From Previous Recommendations #1, 13, & 17)

As discussed in this report, since the previous audit, DHS requires that its staff conduct MTEs, RSRI, and Cluster Inspections twice a year each. We found that DHS staff has conducted inspections and reviews at all Aguila program sites though not as frequently as required.

However, while DHS has an inspection problem, we also identified problems with how these inspections are carried out. Specifically, we found that DHS gives all of its providers advance notice of all upcoming inspections and these inspections are often conducted by the same inspector(s). Inspections can be an important tool in ensuring that facilities used to house homeless clients are safe and sanitary. However, if building operators always know when to expect the inspectors, conditions at the facilities may temporarily improve during these announced visits and may not reflect the day-to-day conditions that DHS clients face. Similarly, rotation of inspectors is a commonly used internal control that enhances integrity of the inspection process.

The inspectors on the RSRI inspection that we observed indicated that each inspector must sign the RSRI report before it is finalized. Yet four (9 percent) of the 45 RSRI final reports sent to Building Operators were not signed by the inspectors. Furthermore, on the final RSRI report from our observation, we noted that not all of the inspectors who participated in the RSRI were even listed on that final report.

## Recommendations

DHS should:

12. Conduct surprise inspections and vary the inspectors.
13. Ensure that all inspection reports are properly signed.

**DHS Response:** *DHS officials do not agree or disagree with these recommendations, stating, "DHS has received approval from the Office of Management and Budget to hire two new inspectors. ...In order to ensure such unfettered access, advance notice of inspections must be provided. ... DHS will continue to ensure that all inspection reports are properly signed."*

**Auditor Comment:** *All Aguila facilities are operating 24 hours per day, 365 days per year. On the Parkview inspection we observed, the team of inspectors split up and inspected different parts of the facility at the same time (some unaccompanied by building staff). In addition, while DHS was conducting its inspection, the facility's staff was also separately checking on clients in their rooms. It may be possible to schedule surprise inspections at a facility on the day that it conducts its own routine inspections.*

*In addition, as we discussed with DHS at the exit conference, we determined that inspection reports may not be properly signed because not only did DHS send us several "unsigned" reports one to two months after the original inspections had been completed/sent to Aguila, but also the RSRI for the Parkview inspection that we observed was missing one of the inspectors on our sign-in sheet.*

### **DHS Needs to Improve Its Monitoring of the Client Sign-in Process**

(From Previous Recommendation #2)

DHS requires that its shelter facilities submit Daily Attendance Rosters, showing which clients are present, absent, late, or have a pass, in DHS CARES by the following day, i.e., April 1 should be submitted by April 2. While we confirmed that DHS had Daily Attendance Rosters for all Aguila Facilities on DHS CARES for April 2013, we noted multiple instances when the rosters had been submitted late. For example, one shelter submitted its April 1 Roster nearly one month late on May 1. We found that DHS staff does not enforce the deadlines. In addition, DHS officials told us that its staff does not check any of the Daily Attendance Rosters.

As noted earlier, DHS currently relies on its providers to accurately report absent clients. For example, according to DHS officials, providers are supposed to call DHS to "exit" the client if the client is absent for more than two days without an approved pass. Without ensuring that facilities submit these attendance records on a daily basis to DHS CARES, DHS would not be able to determine whether the attendance records and client sign-in logs information is accurate and reliable.

## **Recommendation**

14. DHS should enforce the deadlines on facilities submitting Daily Attendance Rosters.

**DHS Response:** *DHS officials disagree with this recommendation, noting, "A provider cannot get paid until the Roster is submitted on a monthly basis, and if the fiscal year passes, then the provider will not get paid at all. Therefore, the Providers are financially incentivized to submitted and finalize the CARES Nightly Attendance Rosters in a timely manner."*

**Auditor Comment:** *Though DHS states that it currently uses these electronic rosters for "operational purposes" only and not for reconciling its invoicing, these documents are still supposed to reflect the actual daily attendance of clients at the facility. If DHS has internal control for submitting Rosters in CARES, it is not enforcing it.*

*It is possible to alter rosters if they are not submitted in a timely manner whether or not there would be any measurable positive impact on DHS's current practices. If rosters are submitted daily as required, the records would reflect actual attendance and could not be later manipulated prior to submission, thus ensuring that clients assigned to a room at a facility are actually staying in that room each night.*

### **DHS's Current Reconciliation Process is Inadequate**

(From Previous Recommendation #3)

DHS's current reconciliation process may not adequately identify unsupported care days. We noted that DHS staff does not ensure that attendance and billing data submitted by providers is complete, accurate, and supported by adequate documentation. DHS officials informed us that its Housing Emergency Referral Operations (HERO) staff does not review the Daily Attendance Rosters or the Monthly Certifications submitted by any of its Shelter Providers (not just Aguila) before authorizing payments to providers. Because there are only 10 program liaisons, DHS stated it is impossible for the agency staff to go through all 170 certifications each month.

DHS's reconciliation process should include steps to ensure that clients/families identified as housed at a shelter are also listed at the facility for all nights billed. Facilities are required to provide DHS with Daily Attendance Rosters and keep documentation to support that clients were present at the facilities for all nights billed. However, Daily Attendance Rosters submitted to DHS CARES for operational purposes only represents the facilities' records of whether or not the client/family is present at the shelter each night. Without an adequate reconciliation, DHS staff may not be aware when a client is absent for more than two days from a shelter without an approved pass and should have been "exited" by the provider unless the provider calls DHS. Because the provider receives less money if it "exits" a client, there is no assurance the provider will call DHS.

For example, based upon a comparison of Daily Attendance Rosters and Certification Reports<sup>7</sup> generated from DHS CARES for April 2013, at one shelter we found discrepancies in care days. We determined that Aguila billed DHS at a rate of \$122.80/night on its April 2013 Certification for a total of 6,053 care days (\$743,308), including 5,884 days (\$722,555) for the current month and 169 days (\$20,753) for prior months. At the same time, Aguila's April 2013 Daily Attendance Rosters showed that clients were present 5,538 days (\$680,066), a difference of 346 days (\$42,489) from the care days billed. For example, we found many discrepancies between billing and attendance, including one unit at the shelter where DHS was billed for 30 days but the client was listed as absent for 22 days.

DHS officials assert that DHS does not compare these documents in its reconciliations and instead uses real time queries and DHS CARES to identify available vacancies. After its reconciliation of the April 2013 invoice from this shelter, DHS paid for 5,963 days (\$732,256) versus the 6,053 days (\$743,308) originally billed.<sup>8</sup> Because reconciliations may occur months after the date of occupancy, "real time queries" may not suffice and the rosters on DHS CARES

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<sup>7</sup> DHS officials maintain that Certifications are for billing and Rosters are for operational uses only. The HERO unit uses the Certifications in reconciliations, but does not compare them to the Rosters so that, according to DHS, there is no connection between Invoicing and the Rosters.

<sup>8</sup> DHS recouped payments for 103 days (\$12,648) based upon documentation produced by Aguila and/or DHS records and paid for an additional 13 days (\$1,596) for which Aguila had not billed but later provided evidence supporting payment.



should be able to be used to provide documentation of a client's presence or absence at a facility on a given date.

As mentioned earlier in this report, DHS stated that it is implementing a new auditing plan which will improve its reconciliation process. DHS officials informed us that it plans to start a new auditing program so that "we have measures to randomly select or predetermine which facilities to check." As part of this program, DHS will include a rating system for its facilities, starting in August 2013 (for July 2013). In December 2012, the pilot program tracked five sites monthly and verified attendance. In the expanded program, 15 random sites will be picked each month so that over the course of the year, each of the 170 sites will be looked at once (no duplicates). However, DHS officials confirmed that if a site is picked at the start of the fiscal year, it would not be chosen again until sometime in the next fiscal year. Therefore, once a site has been audited, it is "safe" until the next fiscal year.

## Recommendations

DHS should:

15. Create process to spot-check Daily Attendance Rosters and Monthly Certifications for accuracy and completeness.
16. Ensure that its HERO staff reviews the Daily Attendance Rosters and the Monthly Certifications submitted by its shelter providers (not just Aguila) before authorizing payments to providers.

**DHS Response:** *DHS officials disagree with these recommendations, stating, "Since the issuance of the 2011 Audit Report, DHS has enhanced and expanded its reconciliation procedure to ensure accuracy and increase Provider responsibility." They maintained that "failure to sign the Nightly Attendance Roster does not necessarily mean that a family was not present that night." DHS cited one example of a "client alleged to have been absent for 22 days was in fact residing in shelter for 30 days."*

**Auditor Comment:** *We cannot determine if there is an actual discrepancy in care days or if DHS's reconciliation process adequately identifies discrepancies because we have not tested the process. DHS officials acknowledge that reconciliations can occur months after the service to clients was provided and that its staff may not be aware of the discrepancy until the client leaves the facility. For example, in our analysis of the April 2013 certification for one facility, we identified a case where there was a \$10,806.40 charge for 88 days in from January to March 2013 in addition to current charges for the client.*

*However, as of July 2013, DHS officials told us that it is randomly auditing attendance records at each facility once a year. Because DHS only recently implemented its new auditing procedures, it is too early to determine whether they will be sufficient.*

### Aguila Should Obtain Written Contracts from Its Suppliers

(From Previous Recommendations #8, #10, & #11)

Aguila did not have written contracts or sub-contracts with many of its suppliers, even in cases where there was an agreement, i.e., management contract between Aguila and Housing

Solutions USA, Inc. Further, Aguila did not specify or restrict how funds may be expended, delineate what services are to be provided, or establish minimum performance standards. Also, its management contract has no deliverables by which to evaluate performance. As stated earlier in this report, by allowing Aguila to provide social services through a network of unwritten agreements and written agreements lacking performance standards, DHS has further weakened its ability to monitor and hold parties responsible for fiscal and programmatic performance.

## **Recommendation**

17. DHS should ensure that written contracts between Aguila and its suppliers have provisions specifying that all work performed must be in accordance with the terms of its master contracts with DHS.

**DHS Response:** *“DHS agrees with this recommendation with regard to contracted facilities.”*

## **Aguila Facilities Are Not Paying their City Fines and Water and Sewer Charges** (From Previous Recommendation #15)

Despite paying \$50.6 million to Aguila and its shelters’ building owners in Fiscal Year 2012, DHS is not ensuring that all Aguila facilities are paying their City fines for violations or water and sewer charges. As of June 2013, when checking open violations, we found a total of \$605,439 in unpaid City fines included in the DHS-provided listings of violations for Aguila Facilities, so DHS should be aware of these unpaid fines. In addition, unpaid water and sewer charges of \$20,796 resulted in a Lien Sale on May 25, 2012, for one Aguila site in the Bronx when it failed to pay the monies owed.

## **Recommendation**

18. DHS should ensure that all Aguila facilities pay their City fines and water and sewer charges.

**DHS Response:** *“DHS agrees with this recommendation.”*



## DETAILED 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 audit scope for the follow-up audit covered the period July 1, 2011, through June 30, 2013.

To address the current status of the recommendations made in our previous audit and to ascertain whether any new procedures were implemented, we interviewed DHS management and staff from its Client Assistance and Rehousing Enterprise System (CARES) and Housing Emergency Referral Operations (HERO) groups. We also used the *Audit Report on the Department of Homeless Services' Controls Over Billing and Payments Made to Aguila, Inc.* (Audit No. FK10-130A), issued on November 4, 2011, as the basis to assess implementation of our previous recommendations. This included DHS's and Aguila, Inc.'s responses to the report, both dated September 12, 2011. In addition, to ascertain to what extent DHS had reported implementing each of the 19 recommendations, we reviewed DHS's most recent audit implementation plan dated December 4, 2012.

To assess DHS's efforts to address recommendations related to DHS inspections and reviews of Aguila (#1, #6, and #13), we requested written procedures for how each unit conducts inspections/reviews as well as procedure manuals for financial reviews. On May 20, 2013, we observed DHS inspectors conducting a RSRI at an Aguila facility. We obtained all Aguila facility inspection/review reports since July 1, 2011, including 32 MTEs, 45 RSRI, and 1,367 (554 units) Cluster Unit Inspections. We examined the timing and frequency of the two most recent MTEs and RSRI for each Aguila facility. We summarized the results of the 1,367 cluster inspections and then selected a random sample of 25 units and reviewed all 63 inspections to determine the specific hazardous conditions and/or maintenance issues that resulted in the failed inspections. In addition, we researched homeless shelter inspection standards/procedures in other cities. Although we requested copies of all MTEs and RSRI (July 2011 to present) from DHS on February 1, 2013, "due to Agency error" DHS officials sent additional inspection/reviews, including MTEs (15) and RSRI (13) from that period after we issued the Preliminary Audit Report.

For recommendations related to attendance records and unsupported care days (#2 and #3), we selected the most recent month available, April 2013. We obtained Daily Attendance Rosters and Certification Reports (Billing Statements) for all Aguila facilities. Then we chose one Aguila facility and compared its Daily Attendance Rosters against its Certification Reports for each unit for each day to identify possible unsupported care days. We then met with DHS officials to clarify the reconciliation process, to verify what constitutes an unsupported care day, and to obtain additional documentation to support this analysis.

To determine to what extent DHS recouped funds from Aguila for improper expenditures and insufficiently supported expenditures identified in the previous audit (#4 and #5), we obtained A.F. Paredes & Company's (external auditor) final report issued February 4, 2013, and confirmed that A.F. Paredes & Company is on the Comptroller's list of prequalified CPA firms.

We then compared the dollars recommended to be recouped by each audit report: Comptroller's prior audit report versus A.F. Paredes & Company's report. Finally, we determined the dollar amount DHS had recouped from Aguila as of June 30, 2013.

To assess the status of DHS's efforts to address issues related to written agreements (contracts and subcontracts) and VENDEX requirements for vendors (#7, #8, #10, #11, and #12), we requested all current contracts, subcontracts, and leases for all Aguila facilities. We obtained four Aguila contracts, one Aguila contract renewal, three lease agreements, two security agreements, and a management agreement with Housing Solutions, USA. We also reviewed a June 2013 court decision that requires DHS to have written contracts for "per diem" arrangements. DHS identified 11 Aguila facility vendors paid more than \$100,000 each directly by DHS in Fiscal Year 2012. For each vendor, we checked VENDEX for required questionnaires and evaluations as of April 30, 2013. After the exit conference, DHS officials sent us documentation that, in July 2013, it filed an appeal of the court decision.

To determine how DHS ensures that non-contracted payment rates are reasonable, appropriate, and adequately supported (#9), we obtained the current per diem rates for Fiscal Year 2013 for all of its non-contracted Aguila facilities along with DHS's *Guidelines for the Expansion of Capacity*, dated April 2009, and explanations from DHS officials on how the rates were determined. We also confirmed in writing that DHS does not intend to implement this recommendation.

As part of our assessment of DHS's monitoring of Aguila to ensure it housed clients in safe and sanitary conditions, we tested the extent to which DHS followed up on identified conditions (#14), rectified open violations (#15), and stopped placing clients in hazardous and unsanitary facilities (#16). First, we reviewed the corrective action plans for all RSRI's conducted during the scope period to determine if "unsatisfactory" issues were corrected or reappeared on subsequent corrective action plans for each of the 19 Aguila facilities. We also reviewed 63 cluster inspections of the 25 randomly sampled units to determine whether hazardous issues cited on failed inspections occurred on subsequent inspections of the same units.

In addition, we determined if DHS was aware of open violations at the Aguila facilities by obtaining from DHS all Aguila facility corrective action plans with violations and unpaid fines listed as of April 2013. Then we determined whether DHS ensured that the problems that resulted in the violations were corrected in a timely manner by analyzing 1,565 HPD open violations, as of June 2013, from "HPD Online" for the 43 Aguila buildings used by DHS, including the number and age of all violations as well as the number and age of hazardous (Class C) violations.

As regards Facility Program Reviews (#17), Follow-up on Social Service Deficiencies (#18) and Improvement Plans (#19), we obtained DHS's written confirmation that it does not intend to implement any of these recommendations and that, despite deficiencies; it did not impose any financial penalties on Aguila in Fiscal Year 2012.

The results of audit tests involving sampled Aguila inspections and related documentation were not projected to the population of DHS's inspections of Aguila facilities. Nevertheless, they provided a reasonable basis for us to assess DHS's inspections and follow-up activities.

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October 22, 2013

**BY E-MAIL AND BY HAND**

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**Re: Response to Draft Follow-up Audit Report on the  
Department of Homeless Services' Controls Over Billing and  
Payments Made to Aguila, Inc. (7S13-102F)**

Dear Ms. Kim:

This letter is in response to the Draft Follow-up Audit Report on the Department of Homeless Services' ("DHS" or the "Agency") Controls Over Billing and Payments Made to Aguila, Inc. ("Aguila" or "Provider"), issued by the Office of the Comptroller ("Comptroller") on October 3, 2013 ("Draft Report").

Following a brief overview of Aguila, we address each of the Draft Report's follow-up findings with respect to its findings and recommendations in the Comptroller's prior audit of DHS' Controls Over Billing and Payments Made to Aguila, issued November 4, 2011 ("2011 Audit"). Next, we respond to each of the Comptroller's new findings and recommendations. To the extent that the Comptroller found DHS implemented a previous recommendation, DHS does not address that herein.

**AGUILA OVERVIEW**

Aguila is a not-for-profit organization established in 2001 that provides social services to over 1,400 homeless families in New York City. The Provider's mission includes the provision of shelter to homeless families while assisting them to obtain permanent housing and exit shelter as quickly as possible. Aguila accomplishes this by tailoring its services to meet each family's unique needs and helping each family to overcome their specific obstacles toward achieving independence. Aguila fosters a culture of client responsibility and accountability in the family shelters it operates by working with clients to develop and adhere to Independent Living Plans for securing permanent housing, and assisting them to find employment and apply for financial benefits necessary to remain in the community.

Aguila operates 21 shelters throughout the City of New York, including 16 shelters for families with children ("family shelters"), and five shelters for adult families. Four of these shelters operate pursuant to written contracts between DHS and Aguila. Currently, Aguila has 659 units for adult families and 1,365 units for families with children, totaling 2,024 units.

#### **PREVIOUS RECOMMENDATIONS FROM 2011 AUDIT**

**Previous Recommendation No. 1<sup>1</sup>**: DHS should ensure it conducts bi-monthly or bi-annual unit inspections and record reviews as required.

**Comptroller's 2013 Finding:** Since the 2011 Audit, DHS has conducted Monitoring Tool Evaluations ("MTE") at all but three of the 21 Aguila program sites. DHS has not conducted MTEs twice a year as prescribed by its procedures for six of 21 Aguila sites.

**DHS Response:** In its response to the 2011 Audit, DHS stated its commitment to the performance of semi-annual MTEs of all Tier II shelters, cluster sites, and hotels. DHS program divisions utilize the MTE to evaluate the performance of each contracted and non-contracted facility. The MTE includes: (1) a monthly apartment fitness report which is based upon inspection of 10 percent, or at least 10, of the units in each shelter, whichever number is greater, and evaluates housekeeping and safety factors in each unit; (2) a social services/program review; (3) a housing placement target review; and (4) a verification of unit occupancy review. Thirty days after receipt of the MTE, the provider must submit a Corrective Action Plan indicating whether identified issues have been corrected, or if not, providing an estimated date for correction.

In accordance with its procedures, DHS Family Services staff have conducted MTEs at all Aguila family shelters. The three facilities identified by the Comptroller where MTEs have not been conducted are non-contracted adult family shelters. DHS Adult Services began conducting MTEs at contracted adult family shelters in April 2013 and will conduct MTEs for all non-contracted adult family shelters starting in Fall 2013.

As to the six sites identified by the Comptroller where MTEs were not conducted bi-annually, according to Agency records, five were for adult family shelters and one was for a family shelter. As stated above, DHS started conducting MTEs of adult family shelters in Spring 2013. With respect to family shelters, the only missing MTE according to Agency records was for Julio's Family in the second half of 2011. However, MTEs have been conducted for Julio's Family bi-annually since that time (three MTE periods). Additionally, MTEs for all other family shelters were completed in full. Going forward, MTEs will be conducted at all family and adult family shelters on a bi-annual basis.

**Previous Recommendation No. 3:** DHS should investigate unsupported client-lodging days identified in this report and recoup payments as appropriate.

<sup>1</sup> Previous recommendations are those from the 2011 Audit. To the extent that DHS disagreed with a recommendation from the prior audit, DHS will restate its disagreement herein.

**Comptroller's 2013 Finding:** DHS did not investigate and recoup payments for unsupported client-lodging days identified in the previous report, and DHS' attendance verification procedure cannot identify all discrepancies in care days because staff does not review provider submitted rosters of certification reports to ensure that they are complete and accurate each month.

**DHS Response:** In its response to the 2011 Audit, DHS disagreed with this recommendation on the grounds that the Comptroller's findings of unsupported care days was based solely on whether a care day was supported by a sign-in log or attendance sheet. However, a sign-in log or attendance sheet alone does not mean that the family did not reside in the shelter on that day. Moreover, DHS continues to disagree with the recommendation inasmuch as DHS has a robust attendance verification procedure and audit process to identify any care day discrepancies and reduce the risk of overpayment and unauthorized payments to providers

This process, known as the Attendance Verification/Reconciliation Procedure, tracks client entry in and out of the family shelter system. Issued on April 5, 2013, this procedure sets forth the process by which family shelters collect, record, and maintain client shelter attendance verification and payment processing material, and make them available for inspection upon DHS request. This procedure applies to both contracted and non-contracted facilities, and requires all shelter providers to maintain daily attendance collection records using two documents: the Sign In/Out Log and the CARES Nightly Attendance Roster. The Sign In/Out Log, kept at the front desk of each facility, must be signed by all families every time they enter or leave the shelter. The CARES Nightly Attendance Roster, also kept at the front desk, must be signed by families each night so as to identify which clients are occupying their units on a given night. Providers must use the signatures on both documents to verify which families are present, absent or past curfew, and must enter that information in the Client Assistance and Rehousing Enterprise System ("CARES") Daily Attendance Roster screen. Attendance must be updated in CARES by 12 a.m. every day. Failure to update CARES will prevent approval of the CARES care day invoices, which in turn results in delayed provider payments.

As part of the procedure, the Agency's Housing Emergency Referral Operations unit ("HERO") conducts monthly audits of 10 randomly selected sites and examines three consecutive days of Sign In/Out Logs. During these audits, HERO compares the submitted Logs against CARES, and if HERO discovers any discrepancies, it asks the provider for additional supporting documentation. Audited providers are graded on an A-B-C grading scale based on the accuracy of family occupancy. Providers receiving a "C" score will have an unannounced physical inspection to verify family occupancy. If the audit and the inspection determine that a family has been absent from the shelter for three consecutive days, and the provider is unable to provide documentation supporting occupancy, DHS will recoup for the third day, as State regulation requires that a client must be logged out after a 48-hour absence from a DHS facility. The audit process is necessary because DHS cannot review each and every Log and Roster document on a daily basis.

Audits began in January 2013, and of the various shelters audited, HERO performed audits of seven Aguila sites. These monthly audits have increased provider accountability and transparency, and since the inception of the monthly audits, HERO has seen a significant increase in proper attendance documentation.

**Previous Recommendation No. 4:** DHS should recoup \$913,949 from Aguila related to improper expenditures.

**Previous Recommendation No. 5:** DHS should investigate insufficiently supported expenditures totaling \$9.1 million and recoup funds accordingly.

**Comptroller's 2013 Finding:** DHS did not investigate all expenditures previously identified as insufficiently supported and recoup all of the funds related to improper expenditures identified in the previous audit.

**DHS Response:** As a general matter, DHS methodology, the internal and CPA audits, special audits as necessary, and expenditure reviews, coupled with the fiscal year close-out process for line-item budgeted contracts provide more than adequate monitoring and assurance with respect to shelter providers' activities and use of City funds. Moreover, specific to the expenditures identified in Previous Recommendation Nos. 4 and 5, and as DHS stated in its response to the 2011 Audit, DHS contracted with independent accounting firm, A.F. Paredes & Co., to perform an audit of the expenditures identified for recoupment by the Comptroller for Aguila's contracted shelters, namely Bronx Neighborhood Cluster and the Parkview Hotel<sup>2</sup> DHS agreed to recoup any expenditures recommended by Paredes during their audit. Paredes recommended that DHS recoup \$558,412 from Aguila, and to date, DHS has recouped the entire recommended amount. Finally, in line with both the Comptroller's and Paredes's recommendation, DHS ensured that Aguila has leases with the landlords for each of its contracted facilities.

**Previous Recommendation No. 6:** DHS should periodically review Aguila financial records, including but not limited to inventory procedures and lists, allocation plans, contracts, and invoices, to ensure that reported expenditures are accurate, reasonable, appropriate, and adequately supported.

**Comptroller's 2013 Finding:** The Comptroller confirmed that DHS reviews Aguila financial and operational records for contracted sites during its annual close-out process for final payments. However, the Comptroller stated that DHS might be overpaying for services with regards to non-contracted sites because DHS does not require or review line item budgets or allocation plans for these sites.

**DHS Response:** DHS disagrees with this finding as it pertains to non-contracted shelters. As stated in previous audit responses, as well as in responses to document requests in the instant audit, non-contracted shelters operate pursuant to per diem arrangements, and not line item budgets.

<sup>2</sup> Fulton Family Residence and Freedom House were not yet open or operating at that time.



With regard to contracted shelters, in addition to DHS's closeout process, which compares Aguila's close-out expenditures to its approved fiscal year budget, DHS also engages in internal and CPA audits, special audits as necessary, and expenditure reviews. These tools provide sufficient monitoring and assurance with respect to Aguila's activities and use of City funds.

**Previous Recommendation No. 7:** DHS should enter into written contracts with Aguila for directly-operated facilities that at a minimum specify or restrict how funds may be expended, delineate services to be provided, establish minimum performance standards and detail remedies or termination clauses for failure to meet standards.

**Comptroller's 2013 Findings:** DHS failed to contract with Aguila for the provision of shelter and social services costing \$10.3 million in Fiscal Year 2010. Instead, DHS operated using unwritten agreements in violation of the New York City Charter and Procurement Policy Board (PPB Rules). By allowing Aguila to provide social services through a network of unwritten agreements, DHS has further weakened its ability to monitor and hold parties responsible for fiscal and programmatic performance.

**DHS Response:** DHS disagrees with this recommendation in that it is based on the 2011 Audit's finding that the use of shelter facilities pursuant to per diem arrangements violates the City Charter, Administrative Code and Procurement Policy Board Rules (PPD Rules). The City filed a Notice of Appeal with the First Department in *Westchester Sq./Zerega Improvement, Inc., John Bonojo, Sandi Lusk, et. al. v. DHS* (Sup. Ct., Bronx County, May 31, 2013), on July 16, 2013.

**Previous Recommendation No. 8:** DHS should ensure that sub-contracted services are covered by written contracts that, at a minimum, specify or restrict how funds may be expended, delineate services to be provided and establish minimum performance standards.

**Comptroller's 2013 Findings:** DHS did not address its lack of subcontracts for services provided to DHS clients at Aguila's non-contracted shelters. For contracted shelters, Aguila has lease agreements, security agreements and a management agreement with Housing Solutions. However, while Aguila provides services as a subcontractor at its non-contracted shelters, it did not enter into signed agreements with any of these facilities.

**DHS Response:** DHS ensures that providers with whom it contracts comply with their contractual obligations. Since the 2011 Audit, Aguila has executed leases for shelter buildings for Freedom House, Fulton Family Residence, Bronx Neighborhood Cluster and the Parkview — all contracted sites. Moreover, any subcontracted services provided at these shelters are covered by written agreements reviewed by DHS.<sup>3</sup> As to non-contracted sites, DHS maintains its disagreement with this recommendation.

<sup>3</sup> Aguila currently subcontracts for security services at Freedom House and the Bronx Neighborhood Cluster. Both the Parkview and Fulton have security services included in the terms of its leases.

**Previous Recommendation No. 9:** DHS failed to establish non-contracted facility per diem rates based upon audited line item operating budgets.

**Comptroller's 2013 Findings:** DHS failed to provide documentation regarding how it set the rate for each shelter to the extent that rate differs from the \$90 per diem specified in the *Guidelines for the Expansion of Capacity*.

**DHS Response:** DHS maintains its disagreement with this recommendation because it was based solely on the erroneous premise that per diem rates for non-contracted facilities would have been lower had the rate been based on expenses established pursuant to a line item budget. As explained in previous audit reports, payments made to non-contracted providers are not governed by line item budgets. Moreover, the "*Guidelines for the Expansion of Capacity* ("*Guidelines*")" document, dated April 2009, states that the rate for per diem shelters is \$90 for room and board. The *Guidelines* apply to shelter per diem rates set after April 2009. In the Draft Report, the Comptroller singles out two adult family shelters: Gracey Inn and Aladdin. Gracey Inn has a per diem rate set at \$60.09 and Aladdin has a per diem rate of \$106.07.

DHS has paid Gracey Inn pursuant to a per diem arrangement since the early 2000's, and thus the rate is lower than the \$90 rate set out in the *Guidelines*. As to the Aladdin, DHS may vary a shelter per diem rate due to a number of different factors, including its location and economic conditions. Indeed, the *Guidelines* provide that a per diem rate may be set outside of the \$90 rate if emergency circumstances warrant and upon Commissioner's approval. The \$106.07 per diem is reasonable, and comports with the *Guidelines*.

**Previous Recommendation No. 10:** DHS should review and approve Aguila sub-contracts for the performance of its obligations.

**Previous Recommendation No. 11:** DHS should ensure that Aguila sub-contracts contain provisions specifying the work performed by subcontractors must be in accordance with terms of master contracts between DHS and Aguila.

**Comptroller's 2013 Findings:** DHS did not ensure that Aguila obtained approval for its subcontracts. DHS failed to investigate Aguila sub-contractors in accordance with the New York City Administrative Code, which requires DHS to obtain VENDEX questionnaires for vendors, including sub-contractors, whose aggregate annual contract value exceeds \$100,000.

**DHS Response:** DHS agrees with these recommendations to the extent that it review and approve sub-contracts Aguila enters into for performance of its obligations under its shelter contracts with DHS. Contracted providers, including Aguila, must provide any information demonstrating that the proposed sub-contractor has the necessary facilities, skill, integrity, experience and resources to perform the specific services in accordance with the terms and conditions of the contract between DHS and the provider. Therefore, DHS contracts have provisions that ensure Aguila's sub-contracts are in accordance with the contracts between DHS and Aguila, and require VENDEX

questionnaires for all vendors, including sub-contracts, whose aggregate annual contract value exceeds \$100,000.

DHS does not agree with this recommendation with respect to non-contracted shelters, and in that regard, reiterates its response to Recommendation Nos. 7 and 8, above.

**Previous Recommendation No. 12:** DHS should obtain Vendex questionnaires for vendors, including sub-contractors, whose aggregate annual contract values exceed \$100,000.

**Comptroller 2013 Findings:** In FY 2012, DHS paid \$50.6 million to 11 vendors for Aguila-operated shelters. Of the \$50.6 million, \$32 million was paid directly to Aguila and \$18.6 million was paid to 10 other vendors. DHS obtained and posted a VENDEX for Aguila, but not the 10 other vendors. DHS inappropriately paid these vendors who had not been processed through VENDEX.

**DHS Response:** The ten vendors identified by the Comptroller were paid pursuant to per-diem arrangements for non-contracted facilities. NYC Administrative Code requires a VENDEX for every “contract for goods and services.” See NYC Admin. Code § 6-116.2 (2001). Therefore, DHS is not required to process its non-contracted vendors through VENDEX.

DHS does not agree with this recommendation with respect to non-contracted sites reiterates its response to Recommendation Nos. 7 and 8, above.

**Previous Recommendation No. 13:** DHS should ensure facilities are inspected in accordance with DHS procedures.

**Previous Recommendation No. 14:** DHS should ensure that identified conditions are properly reported and followed up in a timely manner.

**Comptroller's 2013 Findings:** Since the previous audit, DHS has conducted inspections at all Aguila shelters through its RSRI and cluster unit inspections. However, DHS has not conducted Routine Site Review Inspections (“RSRIs”) twice a year at three Aguila shelters; MTEs were not conducted at three Aguila shelters; and DHS did not conduct MTEs bi-annually for six Aguila shelters. Also, 82% of the 1,367 inspections resulted in failed inspections.

**DHS Response:** DHS places clients in shelters that are clean, safe and decent. In addition to the MTEs, which were described in DHS’ Response to Recommendation No. 1, the Agency conducts RSRIs and Cluster Unit Inspections.

#### **Routine Site Review Inspections**

DHS’ Facilities, Maintenance and Development division (“FMD”) conducts bi-annual RSRIs of all contracted and non-contracted shelters except for clusters (which are subject to a separate inspection process described below). During an RSRI, FMD staff inspects the interior and exterior of each facility, including all common areas and each family unit. FMD uses a multi-page form (18-19 pages) requiring answers to 346

questions which fall into three main categories: (1) cleanliness (to see if the facility is free of dirt, debris, marks and stains); (2) integrity (identifies broken or worn items throughout the facility such as water faucets, window screens and guards, light switches and fixtures); and (3) management (review of administrative logs and records that include fire drills, facility violations, inspections required by the FDNY, Department of Buildings, New York State and other oversight agencies). FMD calculates a score for the facility based upon an analysis of the 346 questions each of which is ranked into one of five scores (excellent, good, satisfactory, needs improvement, and less than satisfactory) and into one of three groups (cleanliness, integrity, and management). The RSRI also includes written commentary where necessary to elaborate upon conditions (in specific common areas and individual units and concerning specific fixtures and the like) and discussion of the exit interview between FMD staff and the provider. Within 30 days of receipt of the RSRI (or sooner depending on the issue to be addressed, see below), the provider must submit a corrective action plan to FMD for its review and approval, detailing a proposed corrective action for all items rated less than satisfactory.

With respect to the three RSRI inspections that were not conducted bi-annually, these three sites are comprised of two facilities that were recently opened, Freedom House and Fulton Family Residence, and one overnight facility, Sugarhill. The missing RSRI for the Fulton Family Residence and Freedom House were in the second half of 2012, the period immediately following the opening of these shelters. The missing RSRI for Sugar Hill was also for the second half of 2012. All three facilities have had RSRI's conducted since that time. DHS will continue to conduct RSRI's of all facilities, excluding clusters, on a bi-annual basis.

#### **Cluster Inspections**

Family Services' Housing Support Services' ("HSS") Cluster Inspection Unit conducts biannual inspections of all cluster units, including those operated by Aguila. Inspectors utilize the HUD-52580-A form, which contains eight general checklist categories. These checklist categories are: (1) living room, (2) kitchen, (3) bathroom, (4) all other rooms used for living, (5) secondary rooms not used for living, (6) heating and plumbing, (7) building exterior; and (8) general health and safety. Each of these checklist items receives either a fail, pass, or inconclusive score. If any item receives a failing score, the inspector must identify what repairs are necessary on the inspection form. Moreover, if any item receives a failing score, the unit is deemed to have failed inspection. At the conclusion of a cluster unit inspection, the inspector provides a copy of the inspection report, i.e., the Summary Notice of Apartment Inspection ("Summary Notice"), to a representative of the provider and the landlord. Additionally, the Summary Notice is entered into the HSS Computer Application. Summary Notices indicating a hazardous condition are immediately emailed to the site's DHS Program Administrator for immediate follow-up. The Program Administrator will then contact the provider and set a time frame within which the provider must address the condition(s). The facility's DHS Program Administrator or Program Analyst will verify that the condition has been abated. If the hazardous condition poses an immediate threat to the health and safety of the occupants, steps will be taken to remedy the condition and/or the family will be moved to another unit immediately. For non-hazardous conditions, the provider must work with the

landlord to correct such conditions.

As to the Comptroller's finding that 82% of cluster inspections "failed," it is important to note that a cluster inspection's finding of a failure in *any one* of the eight checklist categories results in a unit failure, regardless of the reason. Importantly, a failed condition is not necessarily a hazardous condition. Inspectors will mark a condition "failed" for, e.g., a cracked window pane, garbage inside the apartment, paint spackle, closet door removed and/or a blocked egress. Consequently, it cannot be assumed that a failed inspection entails a significant safety issue requiring a unit to be taken off line.

The HUD form utilized by inspectors defines hazardous conditions with respect to electrical hazards, ceiling conditions, wall conditions and floor conditions. Among the conditions that HUD defines as hazardous are serious defects that threaten the structural safety of the building and certain electrical hazards. Peeling paint, a leaking ceiling and missing ceiling tiles are not defined as hazardous.

The Comptroller's finding that eight of 25 cluster units failed multiple inspections for the same hazardous conditions is not correct. Rather, the eight units identified by the Comptroller failed multiple inspections for infestation, a non-hazardous condition. Moreover, conditions such as infestation appearing on multiple inspection reports does not mean the Aguila did not address and correct the problem. Indeed, some issues recur even after being corrected due to client action. However, if an inspection identifies a hazardous condition that endangers health and safety, DHS staff *immediately* notifies the building operator and DHS takes the unit off line until the condition is corrected. DHS will continue to conduct cluster inspections at all cluster units on a bi-annual basis, and will continue to ensure that all hazardous conditions are immediately addressed.

**Previous Recommendation No. 15:** DHS should routinely check whether facilities have open violations and ensure that providers rectify open violations in a timely manner.

**Previous Recommendation No. 16:** DHS should cease placing clients in facilities with hazardous and unsanitary conditions.

**Comptroller's 2013 Finding:** DHS fails to ensure that Aguila is correcting DOB, HPD and ECB violations in a timely manner. Additionally, the Comptroller found that DHS places clients in Cluster apartments that failed due to "hazardous" conditions.

**DHS Response:** In response to Recommendation No. 15, Aguila, like all contracted providers, are required by the terms of their contract to check and remedy all open DOB/HPD/ECB violations. With regard to non-contracted facilities, Aguila tracks these violations, and landlords are expected to remedy all violations expeditiously. The HSS Cluster Inspection Unit also addresses certain HPD, DOB, and DOHMH violations with respect to cluster units; namely, lead paint violations (unit specific), current vacate orders (building or unit specific), and ongoing comprehensive litigation (building specific) which HPD has commenced against the building owner. If any of these conditions exist, the Cluster Inspection Unit immediately notifies HERO so that the unit is taken offline and the family is transferred to another unit.

Finally, DHS disagrees with Recommendation No. 16 in that the Agency places homeless families only in facilities that are safe, decent and clean, and refers to its response to Recommendation No. 14 regarding hazardous conditions.

**Previous Recommendation No. 17:** DHS should ensure that facility program reviews are conducted in accordance with DHS procedures.

**Previous Recommendation No. 18:** DHS should ensure that identified social service deficiencies are followed up on in a timely manner.

**Previous Recommendation No. 19:** DHS should require Aguila to develop improvement plans for facilities that do not meet housing placement targets.

**Comptroller's 2013 Findings:** Aguila did not meet housing targets or impose financial penalties on Aguila for failure to meet them in FY2012, and has not conducted MTEs for three of its 21 Aguila sites for more than a year.

**DHS Response:** As stated in DHS' response to previous Recommendation No. 1, the Agency disagrees with these recommendations to the extent that the Comptroller found that the Agency did not conduct MTEs as frequently as required or conduct sufficient follow up of deficiencies.

Next, DHS began using a new standard human services contract in March 2012 that contains no reference to a length of stay for families in shelter, and those contracts are in use for Freedom and Fulton. Regardless of that contract language referring to any housing target or length of stay, DHS has a legal mandate to provide shelter to all homeless families and individuals, and the 6 month language in the prior human services contracts is an aspirational goal. DHS works diligently with providers to move all families into permanent housing as quickly as possible, using constant communication, case management, training and assistance in procuring benefits.

Indeed, as explained at the audit exit conference, and in document request responses, DHS Family Services staff works with all shelter providers, including Aguila, on an ongoing basis throughout the year to ensure that maximum efforts are made to return shelter clients to the community as expeditiously as possible. By means of e-mail, telephone and in-person communication between Aguila staff and Family Services staff, DHS staff follows up on shelter's responses to monitoring tool evaluations and physical site inspections. Through these various forms of communication, the Agency provides technical assistance to Aguila on a host of issues, including areas identified in the monitoring tools, physical inspections and other procedures used to track and improve Aguila's delivery of service to shelter clients.

Finally, while the State has not permitted DHS to issue financial penalties to providers of families with children shelter, DHS does reduce reimbursement by a certain percentage for providers of adult family shelters that fail to meet monthly housing targets.



## **OTHER ISSUES**

The Draft Report also includes a section entitled “Other Issues.” The following section presents a summary of the issues raised by the Comptroller, followed by DHS’ response to each of these issues.

**Other Issue No. 1: DHS needs improve its inspection and review process.**

**Recommendation No. 12:** DHS should conduct surprise inspections and vary inspectors.

**Recommendation No. 13:** DHS should ensure that all inspection reports are properly signed.

**DHS Response:** The Comptroller notes that DHS gives advance notice of all upcoming inspections, and that many of these inspections are conducted by the same inspector(s). DHS currently has four inspectors and one HVAC inspector on staff to conduct RSRI inspections of over 170 shelter sites, including the 21 Aguila sites. While one inspector may suffice for a smaller site, larger sites require all inspectors to be present in order to complete the work in a timely and expeditious manner. However, DHS has received approval from the Office of Management and Budget to hire two additional inspectors.

Next, DHS must give site managers and superintendents advance notice of the RSRI. Inspectors must have access to the entire facility, including all client rooms, all common areas, the roof, the boiler and all electrical panels, and need access to locked and secure areas. In order to ensure such unfettered access, advance notice of inspections must be provided.

Finally, while the signed signature pages of the four RSRI final reports were inadvertently omitted from the copy of the reports sent to the Comptroller, the signed pages were in fact sent to the providers and landlords. DHS will continue to ensure that all inspection reports are properly signed.

**Other Issue No. 2: DHS needs to improve its monitoring the client sign-in process.**

**Recommendation No. 14:** DHS should enforce the deadlines on facilities submitting Daily Attendance Rosters.

**DHS Response:** CARES Nightly Attendance Rosters must be submitted by Providers in order for the Provider to get paid. Providers are instructed to submit and finalize the Roster by 12:00 a.m. each day. A provider cannot get paid until the Roster is submitted on a monthly basis, and if the fiscal year passes, then the Provider will not get paid at all. Therefore, the Providers are financially incentivized to submit and finalize the CARES Nightly Attendance Rosters in a timely manner.

Moreover, the Draft Audit Report does not properly distinguish between invoicing and the attendance, though it correctly recognizes that the Rosters are not linked to invoicing. As explained in meetings with the Comptroller’s auditors and written

responses to their questions, DHS clients are required to sign the Sign In/Out Log and Nightly Attendance Rosters; however, some clients may choose not to comply with shelter rules and regulations. Therefore, clients who do not comply with signing the Log or Roster may be incorrectly marked as absent on the Roster, but may still be present at the facility. DHS and the provider enforce client non-compliance with shelter rules through client Independent Living Plans and the Agency's Client Responsibility Procedure.

**Other Issue No. 3: DHS' current reconciliation process is inadequate.**

**Recommendation No. 15:** DHS should create a process to spot check Daily Attendance Rosters and Monthly Certifications for accuracy and completeness.

**Recommendation No. 16:** DHS should ensure that its HERO staff reviews Daily Attendance Rosters and the Monthly Certifications submitted by its shelter providers before authorizing payments to providers.

**DHS Response:** These recommendations are based on the Comptroller's finding that DHS' current reconciliation process might not adequately identify unsupported care days. DHS disagrees that its reconciliation process is inadequate. As explained above, in response to Previous Recommendation No. 3, since the issuance of the 2011 Audit Report, DHS has enhanced and expanded its reconciliation procedure to ensure accuracy and increase Provider responsibility.

The Comptroller states that because reconciliation can occur months later, DHS should use the Nightly Attendance Rosters to determine whether a client was present or absent. However, as stated above, this is not appropriate given that failure to sign the Nightly Attendance Roster does not necessarily mean that a family was not present that night.

Moreover, just prior to the Exit Conference, DHS provided documentation in the form of case notes, meeting notices, and CARES printouts evidencing that the client alleged to have been absent for 22 days was in fact residing in shelter for 30 days. The case notes provided also contained a note that shelter staff conferenced the client about her failure to sign the Nightly Attendance Roster. Thus, Freedom House's April 2013 invoice reflecting that the client had resided in Freedom House for 30 days and seeking payment for those care days was correct.

**Other Issue No. 4: Aguila should obtain written contracts from its suppliers**

**Recommendation No. 17:** DHS should ensure that written contracts between Aguila and its suppliers have provisions specifying that all work performed must be in accordance with the terms of its master contracts with DHS.

**DHS Response:** DHS agrees with this recommendation with regard to contracted facilities.

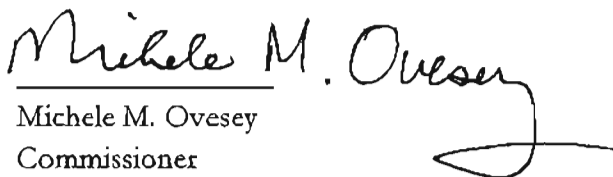
**Other Issue No. 5: Aguila facilities are not paying their city fines and water and sewer charges.**

**Recommendation No. 18:** DHS should ensure that all Aguila facilities pay their city fines and water and sewer charges.

**DHS Response:** DHS agrees with this recommendation.

In closing, we thank the Auditors for their efforts in performing this review and giving DHS an opportunity to respond to the Draft Report's findings and recommendations.

Sincerely,

  
Michele M. Ovesey  
Commissioner

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