



*The City of New York
Office of the Comptroller
Bureau of Financial Audit
Division of Support Services*

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the
Procurement and Monitoring of
CPA Services at the Department of
Homeless Services**

SQ02-127A

June 27, 2002

*The City of New York City
Office of the Comptroller
Bureau of Financial Audit
Division of Support Services*

**Audit Report on the Procurement
and Monitoring of CPA Services
at the Department of Homeless Services**

EXECUTIVE SUMMARY

Background

The New York City Department of Homeless Services (DHS) administers programs for homeless families and single adults. DHS provides its services through contracts with community-based organizations (CBOs) throughout New York City. DHS supports a variety of programs, including:

- Adult services, such as single adult residences, outreach programs, drop-in centers, and substance abuse, employment, and homeward bound programs;
- Family programs, including family residences that have reimbursement agreements with DHS;
- Single room occupancy (SRO) housing; and
- Medical services.

DHS monitors the CBOs to ensure that they are delivering the required services and spending DHS funds in accordance with their contracts. This monitoring consists of program-quality reviews by DHS staff workers and fiscal audits by independent Certified Public Accountants (CPAs) hired by DHS. These audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the New York City Comptroller's Internal Control Directive #5, *Use of Public Accounting Firms for Audits of Delegate Agencies* (Directive #5).

DHS issued—for the first time—a Request for Proposal (RFP) in March 1998 to all the firms on the Comptroller’s List of Prequalified CPA Firms. The RFP was for fiscal audits of the DHS human services contracts for the 1998 program year, and at DHS’s discretion, for approximately one-third of its contracts for the 1999 program year. The RFP that was issued sought the services of CPA firms to audit the accounts and reports of the 188 DHS human services contracts for Fiscal Year 1998, but did not identify the specific contracts to be audited for Fiscal Year 1999. DHS grouped the 188 contracts into four categories, according to the types of program involved: adult programs, family programs, single room occupancy housing, and medical services. The contracts were then grouped into 15 lots. DHS awarded the 15 lots to seven CPA firms that responded to its RFP, at a total cost of \$885,000. The combined value of the contracts to be audited was approximately \$194.5 million.

The DHS Bureau of Audit Services (BAS) is the unit responsible for monitoring the performance of the CPA contractors. BAS receives and reviews CPA progress reports, acts as a liaison between the CBOs and the CPA firms, reviews CPA billings, and reviews the draft and final audit reports submitted by the CPA firms.

Objectives

The objectives of this audit were to evaluate DHS’s solicitation and award practices for the procurement of CPA services, and its monitoring of CPA audit services.

Scope and Methodology

Audit fieldwork was conducted from December 2001 through April 2002.

- We reviewed the procurement process and administration of CPA audit services acquired under the DHS 1998 Request for Proposal. To gain an understanding of the DHS solicitation and award process, we met with DHS officials, and we reviewed various contract documents
- We analyzed the available data to determine whether DHS procurement practices promoted competition and whether the individual contracts were awarded to the best proposers based on the criteria established in the RFP. To ensure that DHS solicited and awarded contracts to firms that were on the CPA List, we checked the CPA List in effect at the time the RFP was issued. We reviewed the individual rating sheets to determine whether the Technical Ratings were adequately supported and in accordance with the criteria set forth in the RFP. In addition, we reviewed the ratings of the awarded CPA firms to determine whether

they had attained the Minimum Average Technical (MAT) score in each of the rating categories, as defined in the RFP. We reviewed the CPA contracts to gain an understanding of the contract requirements. We also met with agency officials to gain an understanding of how DHS monitors and administers the CPA contracts. We reviewed monthly progress reports, several draft and final audit reports, and CPA firm billings relating to the Fiscal Year 1998 programs.

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

Results in Brief

DHS complied with PPB rules and Directive #5 when soliciting CPA firms. However, DHS incorrectly awarded five of the 15 contract lots to a CPA firm that should have been eliminated from consideration. In that instance, DHS could have saved \$251,400 by awarding the five contract lots to the highest-rated firm that attained required minimum ratings for each of the proposal evaluation criteria. Moreover, DHS did not evaluate proposals by individual lot, as specified in the RFP. Further some firms, in our opinion, might also have been awarded more work than they were able to complete within the specified time frames. Lastly, CPA firms did not always submit monthly progress reports, inform DHS when key firm personnel were changed, and have their partners or managers attend audit exit conferences, in accordance with the DHS contracts.

Delays in work completion was also a problem. Only 52 of the assigned 186 Fiscal Year 1998 audits (28%) were completed by their original contract due dates. The other 134 audit reports were delivered by the extended due dates that were approved by DHS, but documentation detailing the reasons for granting extensions was lacking for some of the audits.

The DHS monitoring process included reviews of CPA draft and final reports. DHS reviewed reports format and content as indicated in Directive #5, and used a checklist to ensure that each report's format and content met requirements. However, DHS had no overall tracking system to monitor audit progress and the resolution of audit findings. Moreover, DHS did not always maintain documentation supporting changes that occurred between the draft and final audit reports.

DHS Response

The matters covered in this report were discussed with officials from DHS during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials and discussed at an exit conference on June 6, 2002. On June 7, 2002, we submitted a draft report to DHS officials with a request for comments. We received a written response from DHS on June 21, 2002. DHS agreed to implement six of the report's eight recommendations. Although DHS disagreed with the recommendation that it develop criteria for the amount of audit work that can be awarded to firms based on the sizes of their staffs, it agreed to consider firm size when awarding its next round of CPA contracts. With regard to the remaining recommendation, DHS indicated that it already evaluates audit lots individually, as recommended.

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

TABLE OF CONTENTS

| | |
|---|----|
| INTRODUCTION | 1 |
| Background | 1 |
| Objectives | 2 |
| Scope and Methodology | 2 |
| DHS Response | 4 |
| FINDINGS AND RECOMMENDATIONS | 5 |
| DHS Awarded Five Lots to a Vendor That Should Have Been Eliminated from Consideration Based on the RFP Criteria | 5 |
| DHS Did Not Evaluate Proposals as Specified In the RFP | 6 |
| DHS Did Not Have Specific Criteria For Determining the Amount of Work Awarded to Firms | 7 |
| Lack of Documentation for Extensions Granted to Firms | 8 |
| Noncompliance With DHS Contract Requirements | 9 |
| DHS Monitoring of CPA Audits Can Be Improved | 10 |
| ADDENDUM - DHS Response | |

*The City of New York
Office of the Comptroller
Bureau of Financial Audit
Division of Support Services*

**Audit Report on the
Procurement and Monitoring of
CPA Services at the Department of
Homeless Services**

SQ02-127A

INTRODUCTION

Background

The New York City Department of Homeless Services (DHS) administers programs for homeless families and single adults. DHS provides its services through contracts with community-based organizations (CBOs) throughout New York City. DHS supports a variety of programs, including:

- Adult services, such as, single adult residences, outreach programs, drop-in centers, and substance abuse, employment, and homeward bound programs;
- Family programs including family residences that have reimbursement agreements with DHS;
- Single room occupancy (SRO) housing; and
- Medical services.

DHS monitors the CBOs to ensure that they are delivering the required services and spending DHS funds in accordance with their contracts. This monitoring consists of program-quality reviews by DHS staff workers and fiscal audits by independent Certified Public Accountants (CPAs) hired by DHS. These audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the New York City Comptroller's Internal Control Directive #5, *Use of Public Accounting Firms for Audits of Delegate Agencies* (Directive #5).

The New York City Procurement Policy Board (PPB) Rules specify the processes and procedures that govern City agencies when procuring goods and services. Directive #5 provides additional guidance for agencies in procuring auditing services. The Comptroller's Office maintains a List of Prequalified CPA Firms (CPA List) in accordance with the PPB rules and with Directive #5. For audit services, City agencies are required to solicit only those firms that are on the CPA List.

DHS issued—for the first time—a Request for Proposal (RFP) in March 1998 to all the firms on the Comptroller's List of Prequalified CPA firms (CPA List). The RFP was for fiscal audits of the DHS human services contracts for the 1998 program year, and at DHS's discretion, for approximately one-third of its contracts for the 1999 program year. The RFP that was issued sought the services of CPA firms to audit the accounts and reports of the 188 DHS human services contracts for Fiscal Year 1998, but did not identify the specific contracts to be audited for Fiscal Year 1999. DHS grouped the 188 contracts into four categories, according to the types of program involved: adult programs, family programs, single room occupancy housing, and medical services. The contracts were then grouped into 15 lots, consisting of eight to 16 contracts each. This resulted in the following distribution of lots for which the CPA firms could offer audit proposals: adult programs, five lots; family programs, five lots; single room occupancy housing, four lots; and medical services, one lot.

In 1999, DHS awarded the 15 lots to seven CPA firms that responded to its RFP, at a total cost of \$885,000. The combined value of the contracts to be audited was approximately \$194.5 million.

The DHS Bureau of Audit Services (BAS) is the unit responsible for monitoring the performance of the CPA contractors. BAS receives and reviews CPA progress reports, acts as a liaison between the CBOs and the CPA firms, reviews CPA billings, and reviews the draft and final audit reports submitted by the CPA firms.

Objectives

The objectives of this audit were to evaluate:

- 1) DHS solicitation and award practices for the procurement of CPA services.
- 2) DHS monitoring of CPA audit services.

Scope and Methodology

Audit fieldwork was conducted from December 2001 through April 2002.

We reviewed the procurement process and administration of CPA audit services acquired under the DHS 1998 Request for Proposal relating to the Fiscal Year 1998 program contracts.

To gain an understanding of the DHS solicitation and award process, we met with DHS officials, and we reviewed the following documents:

- Pre-solicitation Report - indicates the need for the CPA contracted services, the method of procurement and solicitation that would be used, the expected cost and benefits of the CPA contracts, the expected time frame for issuing the RFP, and the dates of contract award, expected start and completion.
- Request for Proposal (RFP) - indicates the scope of work, and performance requirements, and requests information pertaining to the experience of the firm, the qualifications of the proposed staff, the number of proposed hours of service, and the proposed price.
- Individual Rating Sheets - is prepared by members of the DHS evaluation team members and indicating their ratings of the proposals submitted.
- The rating guide - is used by the DHS evaluators to evaluate the proposals submitted by the proposing CPA firms.
- Proposals - is submitted by the CPA firms in response to the RFP.
- Recommendation of Award - documents the agency's basis for awarding a contract to a selected firm.

We analyzed the available data to determine whether DHS procurement practices promoted competition and whether the individual contracts were awarded to the best proposers based on the criteria established in the RFP. To ensure that DHS solicited and awarded contracts to firms that were on the CPA List, we checked the CPA List in effect at the time the RFP was issued. We reviewed the individual rating sheets to determine whether the Technical Ratings were adequately supported and in accordance with the criteria set forth in the RFP. In addition, we reviewed the ratings of the awarded CPA firms to determine whether they had attained the Minimum Average Technical (MAT) score in each of the rating categories, as defined in the RFP. We reviewed the CPA contracts to gain an understanding of the contract requirements.

We met with agency officials to gain an understanding of how DHS monitors and administers the CPA contracts, and reviewed the following documents:

- Monthly Progress Reports of CPA firms.
- DHS VENDEX evaluations for the first year of each CPA firm's contract.
- Draft and final report review checklists where DHS reviewers document whether audit reports meet DHS requirements.

- Documentation supporting extensions granted to the CPA firms by DHS for submitting final audit reports.
- Draft and final audit reports.
- CPA firm billings.

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

DHS Response

The matters covered in this report were discussed with officials from DHS during and at the conclusion of this audit. A preliminary draft report was sent to DHS officials and discussed at an exit conference on June 6, 2002. On June 7, 2002, we submitted a draft report to DHS officials with a request for comments. We received a written response from DHS on June 21, 2002. DHS agreed to implement six of the report's eight recommendations. Although DHS disagreed with the recommendation that it develop criteria for the amount of audit work that can be awarded to firms based on the sizes of their staffs, it agreed to consider firm size when awarding its next round of CPA contracts. With regard to the remaining recommendation, DHS indicated that it already evaluates audit lots individually, as recommended.

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

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 27, 2002

FINDINGS AND RECOMMENDATIONS

DHS complied with PPB rules and Directive #5 when soliciting CPA firms. However, DHS awarded five of the 15 contract lots to a CPA firm that should have been eliminated from incorrect consideration. In that instance, DHS could have saved \$251,400 by awarding the five contract lots to the highest-rated firm that attained required minimum ratings for each of the proposal evaluation criteria. Moreover, DHS did not evaluate proposals by individual lot, as specified in the RFP. Further some firms, in our opinion, might also have been awarded more work than they were able to complete within the specified time frames. Lastly, CPA firms did not always submit monthly progress reports, inform DHS when key firm personnel were changed, and have their partners or managers attend audit exit conferences, in accordance with the DHS contracts.

Delays in work completion was also a problem. Only 52 of the assigned 186 Fiscal Year 1998 audits (28%) were completed by their original contract due dates. The other 134 audit reports were delivered by the extended due dates that were approved by DHS, but the documentation detailing the reasons for granting extensions was inadequate. Causes for the delays included delays in providing the CPA firms with the required year-end closeout documents and delays in the audit process itself.

The DHS monitoring process included reviews of CPA draft and final reports. DHS reviewed reports format and content as indicated in Directive #5, and used a checklist to ensure that each report's format and content met requirements. However, DHS had no overall tracking system to monitor audit progress and the resolution of audit findings. Moreover, DHS did not always maintain documentation supporting changes that occurred between the draft and final audit reports.

DHS Awarded Five Lots to a Vendor That Should Have Been Eliminated from Consideration, Based on the RFP Criteria

DHS incorrectly awarded five of the 15 contract lots to a CPA firm that should have been eliminated from consideration, because the firm failed to attain the required minimum rating for one of the RFP proposal evaluation criteria. The awarded CPA firm's price of \$488,120 for the five lots was \$251,400 higher than the \$236,720 proposed price offered by the highest rated proposer that had attained the required minimal ratings for each of the evaluation criteria.

The RFP indicated that each evaluation committee member would be assigned audit lots and would "individually evaluate every technical proposal for that lot on a scale totaling 100 points." The RFP stated that the evaluation team ratings of the reviewed proposal would then be averaged, and that those proposals that received "an overall average technical score of less than 70 points will not be further considered." In addition, each proposal was required to meet "the

minimum average threshold (MAT) scores” for each of the technical evaluation criteria indicated below:

- Level of qualifications and relevant experience (maximum point value: 45, MAT 30 points)
- Quality and appropriateness of proposed audit plans (maximum point value: 30, MAT 20 points)
- Cost effectiveness of budget/fee proposal. (maximum point value: 25, MAT 15 points).

The CPA firm that was awarded lots one through five should have been disqualified because it failed to attain a MAT score of 15 points or more under the “Cost effectiveness of budget/fee proposal” criterion. Its MAT score was 13.75. Awarding this contract therefore violated Section 3-03 of the PPB Rules, which requires that the “Award shall be based on the evaluation factors set forth in the RFP.” DHS officials were unable to provide us with documentation showing that they evaluated whether the proposing firms had attained the required MAT ratings.

Recommendation:

For future RFPs, DHS should:

1. Ensure that all the criteria set forth in the RFP are used to evaluate proposals.

Agency Response: DHS agrees with and intends to implement this recommendation.

DHS Did Not Evaluate Proposals According to RFP Specifications

DHS did not evaluate proposals by individual lot, as specified in the RFP. The evaluators inappropriately rated the submitted proposals by program type. Thus, proposals for multiple lots of work within a program type were evaluated together, not individually. This process had a negative effect on the evaluations of smaller firms that submitted proposals on more than one lot within a program type, since the evaluators were concerned about the ability of the smaller firms to complete the larger amount of work related to multiple lots in a timely manner. Had the evaluators considered each firm’s proposals for individual lots, these concerns would not have been a factor in the evaluation.

Recommendation

2. For future RFPs, DHS should structure the proposal evaluation process in a manner to ensure that each audit lot is evaluated separately, especially if that is the methodology specified in the RFP.

Agency Response: “DHS disagrees with this finding and therefore cannot implement the recommendation. DHS did, in fact follow the methodology established within the RFP which assured that each lot was evaluated separately. It was clear throughout the RFP that proposals would be reviewed and awarded on a per lot basis. The RFP stated that ‘CPA firms may propose to audit more than one program group and more than one lot within a particular program group. In such case, proposers shall submit a separate and complete technical proposal for each program group being proposed which includes a separate and complete budget/fee proposal for each lot being proposed within the applicable program group.’ The RFP also stated that ‘a contract will be awarded for each lot to the qualified proposer whose proposal DHS determines to be the most advantageous to the City, based on a combination of technical quality and proposed fee.’ In addition, the RFP stated that ‘the budget/fee proposal should indicate the number and level of staff (managerial and non-managerial), hourly rates and audit fees per human services contract and for the total lot.’”

Auditor Comment: Proposals for multiple lots of work within a program type were evaluated together, not individually, as claimed by DHS. As stated earlier, this method of evaluating the firms inappropriately penalized smaller firms that submitted proposals. Therefore, we repeat our recommendation that DHS structure the proposal evaluation process in a manner that ensures a separate evaluation of each audit lot.

DHS Did Not Have Specific Criteria For Determining the Amount Of Work Awarded to Firms

DHS did not have specific criteria for determining the amount of audit work a firm of a given size could be awarded.¹ DHS relied on CPA firms “to submit proposals only for those lots whose total contract value is consistent with their staffing and experience,” but did not have specific criteria for the amount of work firms should be awarded, based on the sizes of their staffs. We noted that one firm was awarded four lots consisting of 49 audits even though it had only 16 professional staff members. Consequently, there were significant delays in the audits: on average, these audits took 253 days from the date of contract registration to the date of the exit conference. Under the contract, the audits were supposed to be completed within 120 days from contract registration. In contrast, another firm, with 54 professional staff members, was awarded

¹ Other City agencies including the Department for the Aging and the Department of Mental Health have established limits on the amount of audit work they will award CPA firms based on staffing size.

five lots consisting of 57 audits, of which 48 were completed within the RFP time frame. Therefore some firms, in our opinion, might also have been awarded more work than they were able to complete within the specified time frames.

Recommendation

3. DHS should develop criteria for the amount of audit work that can be awarded to firms, based on the sizes of their staffs.

Agency Response: “DHS disagrees with the finding.” DHS stated: “Based on the pertinent information presented in the proposals, the evaluation committee members considered the amount of work the proposers were capable of performing. Their conclusions were reflected in their ratings for both the technical proposals . . . and the fee proposal.”

Despite its disagreement, DHS stated that it “will examine the application of firm size versus quantity of award in the next Request for Proposal to be released some time in the Fall of 2002.”

Lack of Documentation for Extensions Granted to Firms

Under the DHS contract, the CPAs were to complete the Fiscal Year 1998 audits within 120 days of contract registration. Only 52 (28 percent) of the 186 Fiscal Year 1998 audits were completed by the original due date. According to DHS records, the remaining 134 audits were delivered by the approved extended due dates. However, DHS sometimes did not have documentation showing why extensions were approved. Without such documentation, we cannot determine whether extensions granted by DHS were justified.

According to BAS personnel, the CPA firms verbally notified them of delays and occasionally provided letters requesting extensions or indicated reasons for delays in their monthly progress reports. BAS established no written procedures or guidelines to assist the staff in deciding whether or not an extension was warranted.

Recommendation

4. DHS should establish a formal process for approving extensions, and maintain adequate documentation justifying the extensions.

Agency Response: DHS agreed with and intends to implement this recommendation. DHS stated:

“The Bureau of Audit Services has an informal process for approving the extensions and maintaining adequate documentation justifying the extensions. However, BAS intends to formalize the process by having CPA firms request

extensions by submitting an application for an extension to complete the audit. Based on the reasons given for the delay and the timeliness of the request, the audit firm will be informed in writing of the request's approval or denial. Each request for an extension along with its final disposition will be maintained in the specific audit file."

Noncompliance With DHS Contract Requirements

CPA firms did not consistently adhere to contract requirements as indicated below:

- CPA firms are required to submit monthly progress reports to DHS on the status of their audits and the projected due dates for the draft and final audit reports. Most firms did not submit these reports monthly. Rather, they submitted them haphazardly and the reports, when submitted, did not always provide the information that was required. For example, the CPA firm that was awarded lots seven through 10 submitted only four monthly progress reports over an eight-month period, and the reports generally lacked projected due-dates.
- The contracts required that the CPA firms notify DHS of any significant changes in key personnel. Although certain firms made changes that would warrant notification, DHS generally was not notified. For example, the CPA firm that was awarded lot 12 indicated that four professional staff members would be assigned to the 11 audits. However, according to the bills submitted by the firm, all of the audits were done by one individual. DHS was never notified of this significant change in staffing. It should be noted that four of this firm's 11 audits required extensions.
- DHS's CPA contracts required that a partner or manager of the CPA firm attend all exit conferences. However, a partner or manager from the CPA firm that was awarded lot 15 did not attend exit conferences for 3 of the 15 audits.

Recommendation

5. DHS should enforce the CPA contract requirements relating to the monthly submission of progress reports, changes in key personnel, and attendance at exit conferences.

Agency Response: DHS agreed with and intends to implement this recommendation. DHS stated:

"The Bureau of Audit Services (BAS) will notify all audit firms of the strict enforcement of all contract provisions. Furthermore, each DHS auditor will continue to utilize our tracking system to record the submission of monthly progress reports and review the submission for completeness. Additionally, BAS will continue to maintain contact with the auditors to make certain that we are

aware of any changes in key personnel changes. When exit conferences are scheduled, we will remind the audit firms that meetings cannot take place without the attendance of either a partner or manager.”

DHS Monitoring of CPA Audits Can Be Improved

DHS had no tracking system to monitor audit progress and the resolution of audit findings during the audit period. Furthermore, DHS report-review files do not always contain sufficient documentation to explain and justify the changes in audit findings between draft and final audit reports. For example, the auditor for one family program questioned costs totaling \$243,459 in a draft report. Those questioned costs were reduced to \$1,013 in the final report. No explanation was given in the final report, and DHS files did not explain this reduction. Changes between the draft and final report generally occur based on information provided at the exit conference by the audited entity. DHS should require that CPA firms submit a memo explaining and justifying any significant changes between the draft and final report. In addition, the DHS final report review checklist should include a section for noting whether the findings between the draft and final report changed.

At the exit conference, DHS provided documentation showing that a tracking system has been developed and implemented. However, the tracking system needs to be expanded to incorporate additional details relating to contracted audits’ findings and recommendations. In addition, on June 7, 2002, DHS showed us a memo from a CPA firm explaining the reasons why changes between the draft and final audit report indicated above were made.

Recommendations:

DHS should:

6. Maintain and expand its tracking system to monitor audit progress and audit-finding resolution.

Agency Response: DHS agreed with and intends to implement this recommendation. DHS stated:

“The Bureau of Audit Services (BAS) shared with the auditors the method used since 1999 to track an audit’s progress. Each month, CPA firms are required to submit a Monthly Progress Report. This document provides information that includes the audit’s status and alerts us to potential problems. BAS intends to meet with DHS’ Financial Management departments and the appropriate program departments to find ways of incorporating audit-finding resolutions into the tracking system.

“In the future, if funds are available, we hope to implement a more comprehensive electronic tracking system.”

7. Require that CPA firms disclose either in final audit reports or in a memo to DHS the reason for significant changes in audit findings.

Agency Response: DHS agreed with and intends to implement this recommendation. DHS stated: “The Bureau of Audit Services (BAS) will instruct the audit firms to explain either in the final audit report or in a memo to BAS the reason(s) for significant changes between the draft and final audit reports.”

8. Revise its final audit review checklist to include a section for noting whether the findings between the draft and final report changed.

Agency Response: DHS agreed with and intends to implement this recommendation. DHS stated:

“The Bureau of Audit Services (BAS) is in the process of revising its final audit review checklist to include other sections. BAS will include a section that notes whether there are significant changes in the findings between the draft and final reports. Presently, at exit conferences, agreed to changes are noted by BAS auditors. When the final report is prepared for BAS’ review, comparisons are made between the information recorded at the exit conference and the final report to ensure that changes agreed to at the exit conference have been incorporated in the final report. When our revised checklist is completed, the procedures described above will be formalized.”



DEPARTMENT OF HOMELESS SERVICES

33 Beaver Street, 17th Floor
New York, NY 10004

(212) 361-8000
Fax: (212) 361-7977
TTY: (212) 361-8001

LINDA GIBBS
COMMISSIONER

June 20, 2002

Roger D. Liwer
Assistant Comptroller for Audits
New York City Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Re: Draft Audit Report of the Procurement and Monitoring of CPA services at the Department of Homeless Services (SQ02-127A)

Dear Mr. Liwer:

In March 1998, the Department of Homeless Services (DHS) solicited the services of qualified certified public accounting firms to audit the financial accounts and reports of human services provided by organizations under contract to or in other reimbursement agreements with DHS. This RFP was the first and most complex of its kind implemented for audit services since the establishment of DHS as an agency and resulted in letting of 188 audits with a start date of October 1998.

Enclosed are DHS' responses to the findings and recommendations made in the above mentioned draft audit report. DHS agrees with and intends to implement six of the eight audit recommendations. However, DHS disagrees with recommendations two and three because we contend that in our assessment of the Request for Proposal (RFP), we evaluated each lot separately and established criteria for audit work awarded.

DHS' contracted CPA audits improved financial accountability, helped ensure that funds are spent for authorized purposes, and ensured that providers met service goals and objectives. DHS continues to refine its procedures and processes so that the agency fulfills its mandate efficiently, effectively, and economically.

Sincerely,


Linda Gibbs

cc: Jim Anderson, DHS
Thailia Edwards, DHS

Martha J. Harvey, DHS
Robert Mascali, DHS

Steve Pock, DHS
Suellen Schulman, DHS

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A. RECOMMENDATION WITH WHICH THE MANAGEMENT
AGREES AND INTENDS TO IMPLEMENT

Recommendation 1: Ensure that all the criteria set forth in the RFP are used to evaluate proposals.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

We agree with the Comptroller's finding and recommendation within the following context. This Request for Proposals ("RFP") was the first and most complex of its kind implemented for audit services since the Department of Homeless Services was established as an agency. Each criterion within the RFP contained a minimum threshold score which the vendor had to achieve in order to be further considered for award. As a result of the initial evaluation of proposals, the subject vendor did, in fact, meet the prescribed minimum average threshold ("MAT") score for each of the 3 evaluation criterion and attained an overall average technical score of at least 70 points. Subsequent to the evaluation committee's discussion of the proposers' scores, each member had the opportunity to amend their final scores. Based on those discussions, the subject vendor's scores for one of the criterion decreased. However, their overall average technical score was still at least 70 points. Due to this clerical oversight, DHS unfortunately neglected to re-calculate the MAT score for each criterion, thereby inadvertently overlooking the fact that the subject vendor's score for one of the criterion no longer met the prescribed MAT.

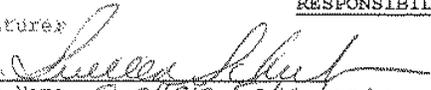
It should be noted that each criteria set forth was used to evaluate the proposals received, except as the evaluation related to the clerical miscalculation of the MSAT as explained above. To assure that this type of oversight will not occur again, MATs are no longer used in RFPs this agency releases.

IMPLEMENTATION TARGET DATE

IMPLEMENTED

RESPONSIBILITY CENTER

Signature:



Print Name: Svetlana Schutman

Print Title: Agency Chief Contracting Officer



Date

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

C. RECOMMENDATION WITH WHICH THE MANAGEMENT
DISAGREES AND DOES NOT INTEND TO IMPLEMENT

Recommendation 2: For future RFPs, DHS should structure the proposal evaluation process in a manner to ensure that each audit lot is evaluated separately, especially if that is the methodology specified in the RFP.

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

DHS disagrees with this finding and therefore cannot implement the recommendation. DHS did, in fact follow the methodology established within the RFP which assured that each lot was evaluated separately. It was clear throughout the RFP that proposals would be reviewed and awarded on a per lot basis. The RFP stated "CPA firms may propose to audit more than one program group and more than one lot within a particular program group. In such case, proposers shall submit a separate and complete technical proposal for each program group being proposed which includes a separate and complete budget/fee proposal for each lot being proposed within the applicable program group". The RFP also stated that "a contract will be awarded for each lot to the qualified proposer whose proposal DHS determines to be the most advantageous to the City, based on a combination of technical quality and proposed fee." In addition, the RFP stated that "the budget/fee proposal should indicate the number and level of staff (managerial and non-managerial), hourly rates and audit fees per human services contract and for the total lot."

As reflected by the individual rating sheets, evaluation committee members:

- Firstly, calculated a technical score, comprised of the first two criteria, for each proposer completing within a particular program group.
- Secondly, calculated a separate cost-effectiveness score for each lot that each proposer proposed (taking into consideration staffing pattern).
- Lastly, calculated an overall cumulative score for each lot proposed by each proposer by adding the proposer's technical score for the program group, which was the same across lots, and their cost-effectiveness score for the applicable lot.

As reflected by the summary-rating sheet for each program group, the overall cumulative scores for each lot were compared and then placed in rank order.

IMPLEMENTATION TARGET DATE
N/A

RESPONSIBILITY CENTER

Signature



Print Name: Svetlana Schulman

Print Title: Agency Chief Contracting Officer

Date

6/20/02

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department Of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

C. RECOMMENDATION WITH WHICH THE MANAGEMENT
DISAGREES AND DOES NOT INTEND TO IMPLEMENT

Recommendation 3: DHS should develop criteria for the amount of audit work that can be awarded to firms, based on the sizes of their staffs.

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

DHS disagrees with the finding "DHS did not have specific criteria for determining the amount of work awarded to firms". The RFP stated that the proposer was to address "their ability to start up the proposed delivery of services in a timely manner by discussing the agency administrative capability to identify hire and train staff by a certain date, the estimated length of time it will take to complete the lot and if the firm is proposing for multiple lots discussion of the impact of the firm's staffing and capacity to support the amount of work." In addition, the RFP stated that for each lot, "The fee proposal indicates (sic) the number and level of staff (managerial and non-managerial), hourly rates and audit fees per human services contract and for the total lot." Based on the pertinent information presented in the proposals, the evaluation committee members considered the amount of work the proposers were capable of performing. Their conclusions were reflected in their ratings for both the technical proposals, pursuant to the second criterion for organizational capability, and the fee proposal, pursuant to the third criterion for cost-effectiveness.

However, having stated the above, DHS will examine the application of firm size versus quantity of award in the next audit Request for Proposal to be released some time in the Fall of 2002

IMPLEMENTATION TARGET DATE
October, 2002

RESPONSIBILITY CENTER

Signature:



Print Name: Svetlana Schutman

Print Title: Agency Chief Contracting Officer

Date



RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A. RECOMMENDATION WITH WHICH THE MANAGEMENT AGREES AND INTENDS TO IMPLEMENT

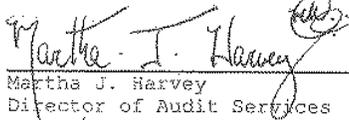
Recommendation 4: DHS should establish a formal process for approving extensions, and maintain adequate documentation justifying the extensions.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Bureau of Audit Services has an informal process for approving extensions and maintaining adequate documentation justifying the extensions. However, BAS intends to formalize the process by having CPA firms request extensions by submitting an application for an extension to complete the audit. Based on the reasons given for the delay and the timeliness of the request, the audit firm will be informed in writing of the request's approval or denial. Each request for an extension along with its final disposition will be maintained in the specific audit file.

IMPLEMENTATION TARGET DATE
September 2002

RESPONSIBILITY CENTER
Bureau of Audit Services



Martha J. Harvey
Director of Audit Services

June 20, 2002

Date

Rec: 4

MID **M.D. OPPENHEIM & COMPANY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

November 16, 1999

Ms. Linda Zundell
Audit Services
Department of Homeless Services
City of New York
161 William Street, 13th Floor
New York, New York 10038

RE: Report Extension
Lot No. 5

Dear Ms. Zundell:

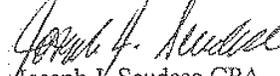
In accordance with Article 4-D of our contract, we hereby request an audit report delivery extension from November 30, 1999 to December 31, 1999 on the Grand Central Neighborhood Social Services (GCNSS) program listed below, for the year ending June 30, 1998:

Program Name: Drop-In Center
Contract Number: 98D1928

The audit has been completed, however, there is no basis to document the allocation/billing of costs to DHS since GCNSS does not segregate costs in their books of account for DHS funds. At this juncture we are awaiting a decision from DHS on the approach we are to follow for this audit, since at this time a report of disclaimer would be issued.

If you have any questions please call Joseph Scudese.

Very truly yours,
M.D. OPPENHEIM & COMPANY, P.C.


Joseph J. Scudese CPA
Partner



DEPARTMENT OF HOMELESS SERVICES

Audit Services
161 William Street
New York, NY 10038

(212) 442-6354
Fax: (212) 442-6613

MARTIN OESTERREICH
COMMISSIONER

ROBERT MASCALI
CHIEF OF STAFF

MARTHA J. HARVEY
AUDIT DIRECTOR

November 23, 1999

Mr. Joseph J. Scudese, CPA
M.D. Oppenheim & Company, P.C.
485 U.S. Highway One, Building C
Iselin, NJ 08830-4100

Re: Audit of Vendor Program
Contracts PIN # 071-98S-004110
Report Extension, Lot #5, Contract
#98D1928

Dear Mr. Scudese:

The Department of Homeless Services is hereby granting your request for an additional extension on the audit report delivery on the following contract:

| <u>Provider</u> | <u>Program</u> | <u>2nd Extension</u> | <u>Due Date</u> |
|-------------------------------|----------------|----------------------|-----------------|
| Grand Central Neighborhood | Drop-In Center | Nov. 30, 1999 | Dec. 31, 1999 |

If you have any questions please call me.

Sincerely,

Linda Zundell

Cc: Martha Harvey
Gregory Maynard

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A. RECOMMENDATION WITH WHICH THE MANAGEMENT AGREES AND INTENDS TO IMPLEMENT

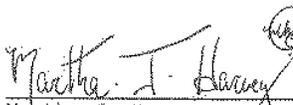
Recommendation 5: DHS should enforce the CPA contract requirements relating to the monthly submission of progress reports, changes in key personnel, and attendance at exit conferences.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Bureau of Audit Services (BAS) will notify all audit firms of the strict enforcement of all contract provisions. Furthermore, each DHS auditor will continue to utilize our tracking system to record the submission of monthly progress reports and review the submission for completeness. Additionally, BAS will continue to maintain contact with the auditors to make certain that we are aware of any changes in key personnel changes. When exit conferences are scheduled, we will remind the audit firms that meetings cannot take place without the attendance of either a partner or a manager.

IMPLEMENTATION TARGET DATE
July 2002

RESPONSIBILITY CENTER
Bureau of Audit Services



Martha J. Harvey
Director of Audit Services



Date



A. F. Paredes & Co.

Certified Public Accountants

250 Stelton Road • Suite 8
Piscataway, NJ 08854

139 Fulton Street • Suite 711
New York, NY 10038

Tel: (732) 752-9530
Fax: (732) 752-7954

Tel: (212) 285-1725
Fax: (212) 285-1759

July 16, 2001

Mr. John Harrison, Auditor
NYC Dept. of Homeless Services-Audit Services
33 Beaver Street, 12th Floor
New York, NY 10005

Dear Mr. Harrison:

We are submitting herewith the Audit Status Report as of July 15, 2001 for Single Occupancy Programs Lot # 13 and Lot #14.

Thank you and please call me or Vivian Roz, Audit Manager, if you have any questions.

Very truly yours,


Anthony F. Paredes
Partner

Wei, Wei and Co, LLP
 Monthly Progress Report
 Department of Homeless Services
 Fiscal Year Ended June 30, 1998
 Lot 15

Partner: Liren Wei
 Manager: Connie Wang

| Contract Number | Provider | Program | Entrance | | Projected | | Actual | |
|-----------------|-----------------------------------|---|----------|------------|----------------|----------------|----------------|----------------|
| | | | Date | Start Date | Fieldwork Date | Fieldwork Date | Fieldwork Date | Fieldwork Date |
| 98C9583 | Montefiore Medical Center | Powers Family Assessment Medical Center | 4/8/99 | 5/17/99 | 5/17/99 | 5/28/99 | N/A | |
| 9883732 | Floating Hospital, Inc. | Auburn Family Assessment Medical | 4/2/99 | 5/6/99 | 5/6/99 | 5/14/99 | 5/14/99 | |
| 98D1891 | St. Vincent's Hospital | Lexington Ave. Medical | 4/1/99 | 4/16/99 | 4/16/99 | 5/18/99 | 5/21/99 | |
| 98D1891 | St. Vincent's Hospital | 36th Street Medical | 4/1/99 | 4/16/99 | 4/16/99 | 5/18/99 | 5/21/99 | |
| 98C5773 | Interfaith Medical Center | Greenpoint Medical | 4/8/99 | 5/19/99 | 5/19/99 | 5/28/99 | N/A | |
| 98C5773 | Interfaith Medical Center | Atlantic Men Shelter Medical | 4/8/99 | 5/19/99 | 5/19/99 | 5/28/99 | N/A | |
| 98C5725 | Care for the Homeless | Jamaica Family Assessment Medical | 4/8/99 | 5/19/99 | 5/24/99 | 5/28/99 | 5/28/99 | |
| 99C5725 | Care for the Homeless | Kingsbridge | 4/8/99 | 5/19/99 | 5/24/99 | 5/28/99 | N/A | |
| 98D4272 | HHC | Homeless Health Initiative | 4/7/99 | 6/10/99 | N/A | 6/18/99 | N/A | |
| 98D6321 | HHC | Medical Review Team | 4/7/99 | 6/10/99 | N/A | 6/18/99 | N/A | |
| 98D1924 | HHC | Brooklyn Women Shelter Medical | 4/7/99 | 6/7/99 | N/A | 6/15/99 | N/A | |
| 98D1877 | Bronx Lebanon Hospital | Bronx Emergency Assistance Unit | 4/1/99 | 4/29/99 | 4/29/99 | 5/14/99 | N/A | |
| 98D1877 | Bronx Lebanon Hospital | Franklin Men Medical | 4/1/99 | 4/29/99 | 4/29/99 | 5/14/99 | N/A | |
| 99P9534 | The Salvation Army, Inc. | Jamaica Women Shelter | 3/25/99 | 6/4/99 | N/A | 6/11/99 | N/A | |
| 99G3276 | Black Veterans for Social Justice | Panoptia House | 4/1/99 | 4/28/99 | 4/28/99 | 5/12/99 | 5/14/99 | |

10/12/99

10

10/12/99 10:53 AM

Partner: Liren Wei
 Manager: Connie Wang

Wei, Wei and Co., LLP
 Monthly Progress Report
 Department of Homeless Services
 Fiscal Year Ended June 30, 1998
 Lot 15

| Contract Number | Projected Delivery Date | Actual Delivery Date | Projected Date of Exit | Actual Date of Exit | Actual Date of Audit | Projected Date of Report | Comments |
|-----------------|-------------------------|----------------------|------------------------|---------------------|----------------------|--------------------------|---|
| 98C9583 | 6/11/99 | N/A | 6/17/99 | N/A | N/A | 7/2/99 | The final budget modification was not received until 5/20. Awaiting the close out from DHS. |
| 9883732 | 6/11/99 | N/A | 6/16/99 | N/A | N/A | 6/24/99 | |
| 98D1891 | 6/11/99 | N/A | 6/16/99 | N/A | N/A | 6/24/99 | |
| 98D1891 | 6/11/99 | N/A | 6/16/99 | N/A | N/A | 6/24/99 | |
| 98C5773 | 6/11/99 | N/A | 6/17/99 | N/A | N/A | 6/24/99 | Awaiting the pending information from Agency. |
| 98C5773 | 6/11/99 | N/A | 6/17/99 | N/A | N/A | 6/24/99 | |
| 98C5725 | 6/11/99 | N/A | 6/17/99 | N/A | N/A | 6/24/99 | |
| 99C5725 | 6/11/99 | N/A | 6/17/99 | N/A | N/A | 6/24/99 | Awaiting the pending information from Agency. |
| 98D4272 | 6/22/99 | N/A | 6/29/99 | N/A | N/A | 7/2/99 | The statistic report, which was used to do sample selection |
| 98D6321 | 6/22/99 | N/A | 6/29/99 | N/A | N/A | 7/2/99 | was still pending |
| 98D1924 | 6/22/99 | N/A | 6/29/99 | N/A | N/A | 7/2/99 | |
| 98D1877 | 6/11/99 | N/A | 6/18/99 | N/A | N/A | 6/24/99 | Agency is in the process to order canceled checks from |
| 98D1877 | 6/11/99 | N/A | 6/18/99 | N/A | N/A | 6/24/99 | bank for our review. |
| 99C9534 | 6/18/99 | N/A | 6/25/99 | N/A | N/A | 7/2/99 | |
| 99G2976 | 6/11/99 | N/A | 6/16/99 | N/A | N/A | 6/23/99 | |

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A RECOMMENDATION WITH WHICH THE MANAGEMENT
AGREES AND INTENDS TO IMPLEMENT

Recommendation 6: DHS should implement a tracking system to monitor audit progress and audit-finding resolution

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Bureau of Audit Services (BAS) shared with the auditors the method used since 1999 to track an audit's progress. Each month, CPA firms are required to submit a Monthly Progress Report. This document provides information that includes the audit's status and alerts us to potential problems. BAS intends to meet with DHS' Financial Management departments and the appropriate program departments to find ways of incorporating audit-finding resolutions into the tracking system.

In the future, if funds are available, we hope to implement a more comprehensive electronic tracking system.

IMPLEMENTATION TARGET DATE

December 2002

RESPONSIBILITY CENTER
Bureau of Audit Services

Martha J. Harvey (MB)
Martha J. Harvey
Director of Audit Services

June 20 2002
Date

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A. RECOMMENDATION WITH WHICH THE MANAGEMENT AGREES AND INTENDS TO IMPLEMENT

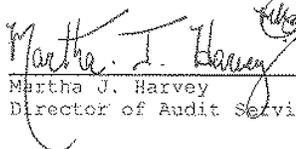
Recommendation 7: Require that CPA firms disclose either in the final audit report or in a memo to DHS the reason for significant changes in the audit findings.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

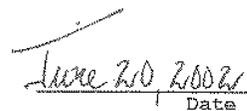
The Bureau of Audit Services (BAS) will instruct the audit firms to explain either in the final audit report or in a memo to BAS the reason(s) for significant changes between the draft and final audit reports.

IMPLEMENTATION TARGET DATE
July 2002

RESPONSIBILITY CENTER
Bureau of Audit Services



Martha J. Harvey
Director of Audit Services



Date

RESPONSE DATE: June 17, 2002

AUDIT TITLE: Report of the Procurement and Monitoring of CPA Services at the Department of Homeless Services (SQ02-127A)

AUDITING AGENCY: New York City Comptroller

REPORT DATE: June 7, 2002

A. RECOMMENDATION WITH WHICH THE MANAGEMENT
AGREES AND INTENDS TO IMPLEMENT

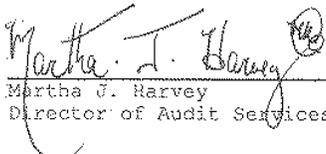
Recommendation 8: Revise its final audit review checklist to include a section for noting whether the findings between the draft and final report changed.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The Bureau of Audit Services (BAS) is in the process of revising its final audit review checklist to include other sections. BAS will include a section that notes whether there are significant changes in the findings between the draft and final reports. Presently, at exit conferences, agreed to changes are noted by BAS auditors. When the final report is prepared for BAS' review, comparisons are made between the information recorded at the exit conference and the final report to ensure that changes agreed to at the exit conference have been incorporated in the final report. When our revised checklist is completed, the procedures described above will be formalized

IMPLEMENTATION TARGET DATE
September 2002

RESPONSIBILITY CENTER
Bureau of Audit Services



Martha J. Harvey
Director of Audit Services


June 20 2002
(Date)