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**AUDIT: DEPARTMENT OF HOMELESS SERVICES PAID OUT
MILLIONS OF DOLLARS ON HANDSHAKE DEALS**

Liu: "Current Honor System for City Services Equals Bad Business Practice"

NEW YORK, NY - The Department of Homeless Services (DHS) paid out millions of dollars (\$152.7 million in FY08) to non-contracted service providers based on an "honor system" of unwritten agreements, invented rates and duplicate clients lists, according to an audit initiated under former Comptroller William C. Thompson, Jr. and just completed by Comptroller John C. Liu.

"Who would go into business on an 'honor system'?" Comptroller Liu said. "This current 'honor system' engaged between the agency and service providers is simply bad business practice. The City of New York is getting the raw end of this deal: poor management and no accountability. How a city cares for its most vulnerable speaks volumes about its people, and we're better than what we show ourselves to be today. Entering into contracts with all providers is the first step to ensure full delivery of services and the most bang for the City's buck."

Chief among the findings during the period of the audit:

- **FAILURE TO CONTRACT** - DHS failed to contract with all providers of shelter and social services and to properly process payments through the City's Financial Management System (FMS) as mandated by the New York City Administrative Code and the City Charter. Instead, DHS operated using unwritten, "handshake agreements" and paid providers from an agency bank account. DHS made payments totaling \$152.7 million to 107 non-contracted (of 154 total) service providers. In February 2008, DHS did not have contracts with more than 53 percent of its units that house homeless families.
- **LACK OF INTERNAL CONTROLS AND MONITORING OF SERVICE PROVIDERS** - DHS failed to monitor service providers to ensure accurate recording and reporting of client-lodging days. Instead, when calculating payments, DHS relied on an "honor system" and on unchecked client-lodging days logged and reported by the service provider. The audit found duplicate payments of \$25,918 and unsupported payments of \$23,866.
- **UNJUSTIFIED PAYMENTS** - DHS paid \$953,635 to Tilden Hall Family Residence using duplicate lists of clients and service dates and invented rates as "data" to support and justify the payments. Rates vary widely between \$810 and \$4,836 per family per month.
- **LACK OF SAFE AND SANITARY CONDITIONS** - DHS failed to monitor service providers, leaving individuals and families in hazardous, unsanitary and substandard conditions wrought with open violations.

- PROVIDERS DID NOT TRANSITION CLIENTS TO PERMANENT HOUSING IN A TIMELY MANNER - 62 percent of clients at Pilgrim Icahn resided in transitional housing for more than the nine month average, costing DHS \$4.3 million (one client remained for over six years, costing DHS \$234,397). 22 percent of clients at Aladdin Hotel resided beyond the nine month average stay, costing DHS \$1.4 million (one client remained for over four years, costing DHS \$118,933).

“The City is cutting proven programs that help to prevent homelessness, while at the same time spending taxpayer dollars to shelter New Yorkers in unsafe, over-priced hotel rooms that do not effectively reduce homelessness,” said Public Advocate BILL DE BLASIO. “It is time to end this irresponsible practice and implement practical policies that will help prevent homelessness and move more people from shelter to stable, permanent housing.”

“As homelessness increases and New Yorkers struggle to make ends meet, it is now more important than ever to be watchful of agency performance and efficiency,” said Councilmember YDANIS RODRIGUEZ, member of the City Council General Welfare Committee. “There are disturbing inequities going on within DHS, and they must shape up if it is to provide real and valuable services to those who are being hit hardest by the recession.”

“Just because you’re homeless doesn’t mean you should live a life without dignity, said MARY BROSNAN, Executive Director of the Coalition for the Homeless. “Our most vulnerable neighbors need to be helped back on their feet and moved into permanent housing, not relegated to squalor.”

“These findings are disconcerting on many levels,” said JUDITH GOLDINER, Supervising Attorney, Law Reform Unit, Legal Aid Society. “DHS must provide livable, clean space for the City’s increasing homeless population. By failing to adequately monitor providers, DHS has shortchanged the city’s homeless, and taxpayers throughout the city. Such waste is unacceptable in any climate, and it is even more harmful during a time of economic strife.”

Previous audits and letters by the Comptroller's Office in June 1998, October 2003, June 2007 and June 2008 had also cited DHS for its failure to contract formally with providers for shelter and social services.

The recommendations made by Comptroller Liu to DHS include:

- Enter into contracts with all providers of shelter and social services that delineate services to be provided, establish performance standards, and provide termination clauses and remedies.
- Immediately institute a sound and effective system of internal controls and monitor providers to ensure that they accurately record and report client-lodging days. These controls should include, but not be limited to, conducting random, periodic inspections of client sign-in logs.
- Pay providers only for shelter and social services and calculate provider payments based on accurate client-lodging data and mutually-agreed-upon daily rates.
- Conduct unannounced periodic site inspections and interviews with clients and staff.
- Work with providers that consistently fail to meet placement targets to improve their performance.

Comptroller Liu credited Deputy Comptroller for Audit H. Tina Kim and her team in the Bureau of Audit for presenting the findings and recommendations. The full March 2010 audit report is available at http://comptroller.nyc.gov/bureaus/audit/audits_2010/03-25-10_FK09-069A.shtm.