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A Compilation of Audits of Agencies' Oversight of Prime Vendors' Use of Subcontractors on Health and Human Services Contracts

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Table of Contents

Introduction	1
Background.....	1
City Policies and Procedures for Use of Subcontractors	1
City Systems Involved in Subcontract Process	2
Historical Issues	2
Objectives	4
Key Takeaways.....	5
Systemic Issues Identified in Agencies' Oversight of Prime Vendors' Use of Subcontractors.....	6
Prime Vendors Paid More than \$8.6 Million to Unauthorized Subcontractors Used on Contracts	7
Agencies Did Not Consistently Maintain Evidence That Subcontractors Were Vetted and Approved.....	9
Agencies Did Not Ensure Prime Vendors Solicited Estimates from Subcontractors	10
Sampled Subcontractors Not Consistently Recorded or Approved in PIP in a Timely Manner	11
Agencies Do Not Monitor Timeliness of Primes' Payments to Subcontractors	12
Inconsistent Guidance Concerning Payment of Subcontractors.....	14
DOI's Recommendations Related to Subcontractor Oversight Have Not Been Fully Implemented	15
M/WBE Spending.....	15
Less Than 5% of Spending on For-Profit Subcontractors on Sampled Human Services Contracts Went to M/WBEs	15
Recommendations	17
Appendix.....	19

Introduction

Background

New York City Health and Human Services (HHS) agencies enhance the health and well-being of New Yorkers by providing services like foster care, homeless shelters, senior centers, mental health services, and family services.¹ Typically, these services are provided through human services contracts between City agencies and non-profit providers. These providers—or prime vendors—sometimes enter into subcontract agreements with other vendors to provide needed goods and services.

Since there is no direct contractual relationship between the City and subcontractors, the City relies on prime vendors to ensure that selected subcontractors are appropriately competitive and competent, and that costs are contained and risks are managed. These expectations in turn hinge on agencies exercising proper oversight of prime vendors.

This report is an overview of a series of audits of HHS agencies initiated by the Comptroller's Office. These audits included an overview of five agencies' oversight of their prime vendors' use of subcontractors on HHS contracts.

City Policies and Procedures for Use of Subcontractors

The Procurement Policy Board (PPB) Rules § 4-13 requires that all subcontractors be approved by the agency before commencing work on the subcontract, and that the vendor provide documentation requested by the agency to show that the proposed subcontractor has the necessary facilities, skill, integrity, experience, and financial resources to perform the required work. Documentation may include but is not limited to: (1) completed VENDEX questionnaires;² (2) references; (3) licenses; and (4) documentation showing that the subcontractor has been certified by the Department of Small Business Services as an Emerging Business Enterprise (EBE) or a Minority and Women-Owned Business Enterprise (M/WBE), if applicable.

Section 3.02 A-2 (a) of Appendix A of the standard template typically used for health and human services contracts—titled *General Provision Governing Contracts For Consultants, Professional, Technical, Human, And Client Services*—stipulates that “the contractor shall not enter into any subcontract for an amount greater than \$20,000 without the prior approval by the Department of the subcontractor.”

¹ 9 RCNY §1-01(e)

² According to the VENDEX vendor questionnaire, “[VENDEX] includes two questionnaires- the vendor questionnaire and the principal questionnaire. These have been developed to collect information from vendors who wish to do business with New York City, to ensure that New York City obeys the mandate in its charter to do business only with responsible vendors.”

The City of New York Health and Human Services Cost Policies and Procedures Manual (HHS Cost Manual) requires that subcontractors on human services contracts be listed in Payee Information Portal (PIP) (currently listed in PASSPort). It states that for any subcontract valued at more than \$20,000 the subcontractor must be prequalified in HHS Accelerator. In addition, it states that “subcontractors are approved for work on a human service contract when the Department approves the subcontractor in PIP or in written communications with the Contractor.”

On July 31, 2024, HHS Accelerator was taken offline and all procurement processes were transferred to PASSPort. On September 23, 2024, all subcontractor management previously handled through PIP was also transferred to PASSPort. Since completion of the audits, all subcontractor functionalities previously managed through PIP and HHS Accelerator have transitioned to PASSPort, which now manages every stage of the procurement process.

Finally, all subcontract agreements must be in writing (with a copy of the agreement provided to the agency upon request), and the prime contractor must report all payments made to the subcontractor in PASSPort (previously in PIP).

City Systems Involved in Subcontract Process

During the audits’ scope period (FY2022 through FY2024), most HHS agencies used the following systems in the subcontracting process:

- **HHS Accelerator:** The centralized procurement and contract financial management tool for New York City’s Client and Community Service Providers.
- **Payee Information Portal (PIP):** A system that allows vendors to manage their account information and view their financial transactions with the City.
- **Financial Management System (FMS):** The City’s centralized accounting and budgeting system.
- **PASSPort:** The City’s end-to-end digital procurement platform.

Historical Issues

The subcontracting process has been plagued with a history of well-known risks including unapproved and/or unvetted subcontractors and reports of nepotism. The New York City Comptroller, New York State Comptroller, and New York City Department of Investigation (DOI) have leveled complaints and raised questions in a series of audits and reports which generally concluded that HHS agencies exercise inadequate oversight of their subcontractors.³

³ *Audit Report on the Department of Social Services’ Administration of the Pandemic Food Reserve Emergency Distribution Program*, Office of the New York City Comptroller Brad Lander, May 15, 2024; *Oversight of Contract Expenditures of Bowery Residents’ Committee*, Office of the New York State Comptroller, December 30, 2021; and

For instance, in its 2021 report *Corruption Vulnerabilities in the City's Oversight and Administration of Not-for-Profit Human Services Contracts*, DOI identified numerous instances in which vendor employees were supervised by family members within the vendor organization, apparently without the knowledge and authorization of the funding City agency, and in violation of the Human Services Standard contract which mandates prior written consent for such situations.

The DOI report also found that the implementation of the Standard Health and Human Services Invoice Review Policy issued by the Mayor's Office of Contract Services (MOCS) has actually reduced the amount of documentation being collected by some agencies, such as DOHMH and within certain programs at DSS. DOI recommends instead that "agencies collect more supporting documentation and conduct reviews in a targeted, risk-based manner in order to identify 'disallowed' expenses prior to payment."

In September 2024, a report issued by this office, titled *Preventing Corruption in Government*, cites a lack of transparency in the subcontractor procurement process that creates significant risks for corruption and nepotism. That report recommends, among other things, that the City prohibit payments to vendors for subcontracted work performed by unauthorized subcontractors and that it develops enhanced reviews for subcontractors. Such reviews would include conducting a basic integrity review of subcontractors and ensuring that, among qualified and responsible bidders, the most cost-effective subcontractors are selected.

In October 2024, another DOI report (*DOI's Examination of Compliance Risks at City-Funded Homeless Shelter Providers and the City's Oversight of Shelter Providers*) reiterated many of the recommendations issued in the 2021 report. The report noted that "while the City has implemented some reforms since the 2021 Report and is also undertaking some work that closely tracks DOI's recommendations, many of the recommendations from 2021 have not been implemented at any substantial level."

Due to the history of risks in the City's subcontracting process, on August 30, 2023, the Comptroller's Office initiated a series of audits focused on agency oversight of prime vendors' use of subcontractors in health and human services contracts to assess oversight over the subcontracting process and suggest improvements to mitigate the risk of fraud, misuse, and waste of City funds. Five HHS agencies were selected for these audits: the Administration for Children's Services (ACS), the Department of Homeless Services (DHS), the Human Resources Administration (HRA), the Department of Health and Mental Hygiene (DOHMH), and the Department for the Aging (NYC Aging).

The audits also looked at the use of M/WBEs on HHS contracts. Although there are no M/WBE requirements for HHS contracts, increased use of M/WBEs can help the City meet its participation goals.

DOI Report on Corruption Vulnerabilities in the City's Oversight and Administration of Not-for-Profit Human Services Contracts, November 2021; *Preventing Corruption in Procurement*, Office of the New York City Comptroller Brad Lander, September 2024

Objectives

The objectives of these audits were to assess whether agencies established proper oversight over the subcontracting process, and to suggest improvements to mitigate the risk of fraud, misuse, and waste of City funds.

Key Takeaways

The audits identified several deficiencies in the agencies' oversight of their prime vendors and subcontractors, though the extent to which deficiencies existed varied among the agencies. Table 1 below shows that several deficiencies were found in multiple agencies, including four that were found at all five agencies, indicating that these issues were systemic in nature and not unique to a particular agency.

Table 1: Deficiencies in Agencies' Oversight of Prime Vendors Use of Subcontractors on Human Services Contracts

Deficiency	NYC Aging	DOHMH	ACS	DHS	HRA	Total No. of agencies with deficiency
Subcontractors not consistently recorded in PIP	✓	✓	✓	✓	✓	5
Payments to Subcontractors not recorded in PIP	✓	✓	✓	✓	✓	5
Agency does not ensure that primes make timely payments to subcontractors	✓	✓	✓	✓	✓	5
Inconsistent guidance concerning payment of subcontractors	✓	✓	✓	✓	✓	5
Payments to subcontractors not authorized to work on contract	✓	✓	✓		✓	4
Evidence that subcontractors were vetted not consistently maintained	✓	✓	✓		✓	4
Insufficient evidence that bids were solicited	✓	✓			✓	3
Primes reimbursed for subcontractor expenses not yet paid out	✓					1
Total deficiencies per agency	8	7	6	4	7	

MOCS and the Mayor's Office of Risk Management Compliance (MORMC), along with City agencies, are working together to address some of these deficiencies that were also found by

DOI and reported in its 2021 report. Since September 2024, all subcontractors' management functionalities such as approval and reporting of payments have been transferred to PASSPort.

Further, on October 21, 2024, MOCS issued a directive on the utilization of PASSPort Subcontractor Module, M/WBE Utilization Tracker, and Best Practices. As per the directive, the new functionality changes "the day-to-day operation of how agencies interact with subcontractor related actions and is crucial to ensuring increased transparency, accountability, and efficiency across our procurement system." The Subcontractor Management Module in PASSPort is to be used by City agencies to review subcontractor approval requests, validate subcontractor payments from prime contracts, and monitor the progress of M/WBE goals.

Regarding the 2021 DOI report, the audits found varying degrees of implementation among the five agencies of the seven recommendations related to agencies' oversight of prime vendors' subcontracting. DOHMH implemented all seven recommendations while DFTA implemented one. MOCS indicated that it is currently working on creating new policies, such as a revised Standard Invoice Review Policy, and working on reforming vendor compliance audits to provide guidance to agencies in implementing DOI's recommendations.

The audits also attempted to examine the use of M/WBEs as subcontractors on Human Services contracts when for-profit subcontractors are utilized. However, auditors were unable to determine the overall percentage of subcontractors that were M/WBEs because none of the agencies had a complete record of subcontracting vendors. Subsequently, the auditors examined the subcontractors utilized on the sampled contracts for each agency and identified a total of 22 that were for-profit firms. DSS officials stated that most third-party service vendors providing human services on contracts are not-for-profits. Nonetheless, the 22 for-profit vendors that could have been M/WBEs still represent a missed opportunity to utilize a significant number of M/WBEs. Of the 22 vendors, only four were M/WBEs. Of the \$3.6 million paid to the sampled for-profit subcontractors during FYs 2022 through 2024, \$168,564 (4.7%) went to the four M/WBE vendors.

When examined on an agency-by-agency basis, HRA had no for-profit subcontractors working under the sampled contracts. Of the remaining agencies, DOHMH had the highest percentage (5.1%) of its for-profit subcontracting dollars going to M/WBEs; HRA and ACS had the lowest percentage at 0%. Although agencies are not required to ensure these subcontracts are awarded to M/WBE vendors, encouraging prime vendors with for-profit subcontractors to utilize M/WBE could help the City achieve its broader M/WBE participation goals.

The findings from these audits are discussed in the following sections of this report.

Systemic Issues Identified in Agencies' Oversight of Prime Vendors' Use of Subcontractors

The audits identified several deficiencies that were common at multiple agencies, indicating that these issues were systemic and warrant a Citywide effort to ensure that appropriate corrective measures are implemented.

Several of the agencies lack a mechanism to identify the subcontractors being used by prime vendors or to review prime vendors' ledgers to determine which subcontractors are being paid and whether there are any previously unidentified subcontractors providing services without proper vetting and approval. In addition, prime vendors did not provide evidence of payments to subcontractors in the HHS system as required during the scope period.

Agencies did not always document their subcontractor vetting and background checking processes, nor did they ensure that prime vendors paid their subcontractors in a timely manner. One agency—NYC Aging—reimbursed primes for subcontractor expenses without verifying that payment to the subcontractors had been incurred. This is a violation of a fundamental principle that only costs incurred by a contractor can be reimbursed under the terms of a cost-based contract. It also points to inadequate invoice review processes; primes must provide documentation to agencies that substantiate claimed costs have been paid before they seek payment from the agency and are approved for reimbursement.

Prime Vendors Paid More than \$8.6 Million to Unauthorized Subcontractors Used on Contracts

The audits found that four of the five agencies examined—NYC Aging, DOHMH, ACS, and HRA—did not reliably confirm that the subcontractors working on contracts were authorized to work on those contracts. A review of sampled contracts found that subcontractors received more than \$8.6 million in payments from prime contractors on contracts for which they did not obtain authorization to perform any work.

Section 4-13 of the PPB Rules requires that all subcontractors be approved by the agency before commencing work on a subcontract.

To ascertain whether agencies ensured that prime vendors obtained approval for subcontractors utilized on contracts, the auditors randomly selected a total of 25 prime vendors utilized on 31 Human Services contracts for the five agencies. Of the 25 primes, 15 were reported to have employed subcontractors on 21 contracts, and 10 were reported to have not employed any subcontractors on 10 contracts. However, when reviewing the general ledgers of these vendors, the auditors found 25 *additional* subcontractors that performed work on 11 contracts for four agencies (NYC Aging, DOHMH, ACS, and HRA), even though these agencies did not authorize their utilization on these contracts. Of the 25 additional subcontractors found without authorization, two were utilized on contracts for which the primes reported that no subcontractors were used. Table 2 below details the sampled contracts' use of unapproved vendors.

Table 2: Sampled Vendor Contracts Utilizing Unapproved Subcontractors, by Agency

Agency	# of Contracts Sampled (with and without subcontractors)	Total # of Subcontractors Used on Sampled Contracts	# of Subcontractors Not Approved for Sampled Contracts	Total Payment to Subcontractors Not Approved for Sampled Contracts
NYC Aging	7	11	6	\$2,251,857
DOHMH	6	29	8	\$2,896,468
ACS	4	7	5	\$1,811,438
HRA	5	16	6	\$1,683,863
Total	22	63	25	\$8,643,626

As shown above, NYC Aging’s prime vendors paid over \$2.2 million to unapproved subcontractors. In one instance, a vendor (Allen AME) included an unapproved subcontractor (Queens Village Transportation) in its HHS invoice to NYC Aging, but listed a different, previously approved subcontractor (Ride Rite Transportation) as the vendor that provided the services. This invoice was approved and paid.

DOHMH’s prime vendors paid almost \$2.9 million to subcontractors not approved to work under the sampled contracts. Even though DOHMH explained that these subcontractors were approved, and in some cases provided Subcontractor Approval Forms, officials stated that the subcontractors had been erroneously approved under other contracts.

ACS’ prime vendors paid over \$1.8 million to subcontractors without following the approval process and at times without ACS’ knowledge. For two of the unapproved subcontractors, ACS claimed that they were “subject matter experts” and not subcontractors, thus they did not need to be approved. However, they provided tutoring and language services to children in care, forming part of the “prime contractor’s programmatic contractual obligations,” which would make them subcontractors based on the HHS Cost Manual’s definition. In another case, ACS stated that the subcontractor was approved under a different contract number, even though the auditors found payments under the sampled contract for services they were not approved to provide.

Finally, HRA’s prime vendors paid almost \$1.7 million to unapproved subcontractors. Similar to ACS’ argument, HRA stated that it considered these organizations to be vendors, not subcontractors, and therefore did not need to approve them. However, according to the HHS Cost Manual, a subcontractor is an organization “hired on a health and human services contract to perform or directly deliver a part of the prime contractors’ programmatic contractual obligations.” Based on that definition, these organizations are subcontractors; one of them (La Colmena) even appeared in the prime’s contract proposal as a subcontractor and should have followed the formal approval process after the prime contract was approved.

The Standard HHS Invoice Review Policy, issued by MOCS in January 2021, states that as part of post-payment reviews, agencies should utilize contractors' payroll and general ledgers to conduct sampling and testing of specific line-items throughout the fiscal year. Additionally, DOI's 2021 report concerning vendor risks in HHS agencies recommended that prior to making payment, City agencies review general ledgers to confirm expenses are accurate and properly allocated and to collect an appropriate level of supporting documentation, including a sample review of transactions, that demonstrates how City funds are being spent.

To prevent payments to primes for unapproved subcontractors, MOCS should establish protocols for agencies to carefully review HHS invoices submitted by primes, periodically review prime vendors' general ledgers, request and review subcontractors' agreements and invoices, and ensure that prime vendors are submitting such documentation as required in PASSPort (previously PIP and HHS systems).

Agencies Did Not Consistently Maintain Evidence That Subcontractors Were Vetted and Approved

Even though all audited agencies had a policy requiring that proposed subcontractors be vetted and background checks be conducted for subcontracts valued at or above certain dollar amounts, the auditors did not find sufficient evidence to indicate that vetting and background checks were consistently conducted on subcontractors by four of the agencies—NYC Aging, DOHMH, ACS, and HRA. A breakdown by agency is shown in Table 3 below.

Table 3: Breakdown, by Agency, of Subcontractors on Sampled Contracts Lacking Sufficient Evidence of Vetting (FYs 2022–2024)

Agency	All Subcontractors Utilized on Sampled Contracts		Subcontractors Lacking Evidence of Being Vetted	
	#	Total Payments	#	Total Payments
NYC Aging	11	\$2,577,269.79	5	\$325,412.60
DOHMH	29	\$9,070,594.44	7	\$3,916,064.15
ACS	7	\$2,033,208.81	2	\$221,770.81
HRA	16	\$10,433,417.68	10	\$8,749,554.68
Total	63	\$24,114,490.72	24	\$13,212,802.24

NYC Aging provided an Excel spreadsheet with a checklist of the various checks it claims to have conducted (e.g., Lexis/Nexis search). However, because there was no other supporting evidence, such as saved background checks conducted or searches for red flags in PASSPort, the auditors

could not determine with certainty if the checks were actually conducted. NYC Aging did state that, going forward, it would save screenshots of its background checks. Documenting these processes may help address questions raised during the approval process and provide evidence that NYC Aging vetted the subcontractors.

DOHMH generally ensured that prime vendors provide Subcontractor Approval Forms (SAFs) for subcontractors; however, the auditors found that the forms were incomplete for six of the 21 approved subcontractors sampled. Specifically, the required dates (such as approval date) were missing, and required boxes (such as agency approval) were not checked. In addition, for one of the eight subcontracts in the sample valued at more than \$250,000, the required Vendex questionnaire had not been filed in more than three years and should have been updated as required by PPB Rules.

ACS did not maintain evidence of the vetting process for any of the sampled subcontractors even though its policy requires that subcontracts valued at \$20,000 or more undergo a “Responsibility Determination” (vetting process). In addition, for Human Services contracts, ACS did not require that prime vendors use the SAF. ACS stated that going forward, it will save information found in its background checks and will begin using a modified version of the SAF in PASSPort.

Similarly, HRA did not maintain evidence of its vetting of approved subcontractors. In addition, the auditors also found that, at times, SAFs were not completed correctly and had incorrect contract descriptions and boxes that were not checked.

Documenting these processes may help agencies address questions raised during the approval process and provide evidence that they vetted those subcontractors. In a directive issued by MOCS on October 21, 2024, regarding PASSPort Subcontract Management Module and Best Practices, MOCS stated that, as a best practice, agencies should “conduct an integrity review of any proposed subcontractor, including, in addition to reviewing any completed PASSPort disclosures for the entity or its principals, conducting an internet research or other inquiry of the entity and its principals as necessary.” Our office recommends that MOCS and MORMC should monitor the agencies to ensure that they comply with this requirement and maintain evidence of such vetting.

Agencies Did Not Ensure Prime Vendors Solicited Estimates from Subcontractors

According to the Human Services Standard Contract, Appendix D, Section 4.05, the prime vendor must solicit and document at least three written estimates for any payment made or obligation undertaken in connection with the agreement for any purchase of goods, supplies, or services for amounts exceeding \$25,000.

Agencies also have procedures that state that for subcontracts valued at or above a certain dollar amount, the prime vendor is required to submit at least three written bids/estimates. These rules/guidelines help to ensure the efficient use of City resources by procuring goods and services at competitive prices.

However, for three agencies—NYC Aging, DOHMH, and HRA—the auditors did not see evidence that bids were obtained for several subcontracts that were at or above the stated threshold. A breakdown per agency is shown in Table 4.

Table 4: Subcontracts for Which Estimates Were Not Obtained on Sampled Contracts, by Agency (FYs 2022-2024)

Agency	# of Subcontracts on Sampled Contracts	# of Subcontracts for Which Estimates Were Not Obtained	% of Subcontracts Lacking Estimates	Payments on Subcontracts Lacking Estimates
NYC Aging	7	2	28.6%	\$321,687.45
DOHMH	13	3	23.1%	\$1,630,013.66
HRA	11	11	100%	\$8,749,554.68
Total	31	16	51.6%	\$10,701,255.79

As shown in Table 4, HRA had no evidence that bids were obtained for any of the 11 sampled subcontractors requiring them.

It is important that agencies ensure that competitive bidding is conducted so that the City gets the best value for services.

Sampled Subcontractors Not Consistently Recorded or Approved in PIP in a Timely Manner

According to Section 3.02 of Appendix A of the Human Services Standard Contract, prime contractors are required to enter all proposed subcontractors in PIP, regardless of subcontract value.⁴ Entering subcontractors' information in City systems provides transparency and helps with tracking payments. Although this requirement applied, none of the five agencies ensured that all of the subcontractors on the sampled contracts were recorded and approved in PIP in a timely manner, if at all.

Table 5 below shows the aggregate delays by agency.

⁴ As of September 23, 2024, subcontractor management is no longer conducted in PIP. All procurement processes are now conducted in PASSPort.

Table 5: Sampled Subcontractor Approval Delays in PIP

Agency	Approved Subcontractors on Sampled Contracts	Value of Approved Subcontracts	Subcontractors Approved After Contract Start	Value of Subcontractors Approved Late	Range of Days Approved Late
NYC Aging	5	\$571,535	2	\$416,750	29–215
DOHMH	21	\$9,993,868	18	\$9,090,843.39	41–706
ACS	2	\$96,994	2	\$96,994.00	76–204
DHS	5	\$1,380,125	5	\$1,380,125.33	154–384
HRA	10	\$22,350,218	10	\$22,350,217.60	583–742
Total	43	\$34,392,740	37	\$33,334,930.32	

The table shows that HRA had the most egregious delays, with all sampled subcontractors being approved 583 days (more than 1 ½ years) or longer after the subcontracts' start dates. (The approvals occurred during the audit, after auditors discussed the matter with officials.) DSS stated that technical issues with PIP were to blame for the late approvals. ACS also stated that there were challenges in getting vendors registered in PIP; however, going forward, they will require all subcontractors to be filed in PASSPort prior to final approval as part of the subcontractor process.

It is essential that agencies exercise better oversight over prime vendors' input of subcontractors' information into the system. Monitoring the services provided is a key part of oversight; specifically, who is providing these services and whether any changes (such as subcontract terms) are made.

Agencies Do Not Monitor Timeliness of Primes' Payments to Subcontractors

According to PPB Rules Section 4-06 Prompt Payments, the City must pay its prime vendors within 30 days of receipt. The City has not established any mandatory timeframe for prime vendors' payments to subcontractors; however, the subcontract agreements that primes enter into with their subcontractors should state the timeframe. Further, MOCS has developed a *Standard Subcontract Agreement* template that may be used by primes; according to that template, payment would generally be due upon receipt of a proper invoice from the subcontractor.

The audits found that agencies did not closely monitor prime contractors' payments to subcontractors. In the case of NYC Aging, prime contractors were not required to submit

subcontractors' invoices as supporting documents in the system. The audits conducted reviews at each agency of subcontractor payments for the sampled contracts covering FYs 2022 through 2024.⁵ Auditors found instances where subcontractors experienced significant delays in payment.

For example, one of the prime vendors on a sampled NYC Aging contract—Southside United Housing Development Fund (Southside) Corporation—provided 53 invoices that were submitted by a subcontractor (Riseboro) from FY2022 to FY2024. The auditors found that 47 (89%) of the invoices were paid more than 30 days after the subcontractor's invoice date. For these invoices, the differences between the date the subcontractor invoiced the prime and the date when the prime actually paid the subcontractor ranged from 35 to 580 days after the 30-day target.

In another example, the auditors found that 17 out of 18 invoices submitted by six subcontractors on four DOHMH contracts were paid anywhere from 32 to 214 days after the invoices' posted dates. The 18 selected invoices totaled \$2.23 million, of which \$2.16 million was paid late. In addition, DOHMH has received complaints from subcontractors regarding payment delays.

For the sake of transparency and tracking, agencies should establish mechanisms for enforcing the requirement that prime vendors report payments and submit proof of payment to subcontractors in PASSPort. This would allow them to better assess whether subcontractors are being paid for the essential services provided. As per MOCS' October 2024 directive, the PASSPort's Subcontractor Module should help facilitate this process as it allows agencies to "make validation decisions on payments from prime contractors to subcontractor [and] gain information on the duration between invoice and payment dates to help optimize cycle times across contractors and subcontractors."

NYC Aging Reimbursed Primes Nearly \$400,000 for Payments Never Made to Subcontractors

In addition to failing to ensure that subcontractors were paid in a timely manner, auditors found that NYC Aging paid primes \$381,700 for subcontractor expenses that had not actually been paid.

The auditors learned through NYC Aging that it had received complaints from two subcontractors (Salsa Catering & Special Events and Gotham Catering) for nonpayment of services provided to prime vendors Institute for the Puerto Rican/Hispanic Elderly, Inc. (IPRHE) and Charles A. Walburg Multi Service Organizational Inc.

Regarding the contract with IPRHE, the subcontractor complained that it was owed more than \$142,000 for services billed from February 2023 through April 2024. As of March 17, 2025, IPRHE owed Salsa Caterers \$156,910.

Regarding the other complaint, in August 2023, the subcontractor Gotham Catering and Events was owed \$520,408 for services provided from January 2023 through May 2023. To date, there

⁵ For the purposes of this audit, a 30-day target has been applied for payments to subcontractors.

is still an outstanding amount of \$224,790 owed to Gotham Catering by Charles A. Walburg. This is money that NYC Aging paid to the prime as reimbursement for this expense.

If these subcontractors had not complained to NYC Aging, the agency might not have known that these vendors were not being paid. For the sake of transparency and tracking, the audit recommended that NYC Aging put mechanisms in place (including enforcing the requirement that prime vendors report payments and submit proof of payment to subcontractors in PASSPort) that would allow them to better determine that subcontractors are being paid for essential services provided.

Inconsistent Guidance Concerning Payment of Subcontractors

As noted above, under the PPB, City agencies must pay prime vendors within 30 days of receipt of an invoice, but there is no established period by which prime vendors must pay their subcontractors. MOCS has established a subcontractor agreement template which recommends that primes pay subcontractors upon receipt of an invoice, but this is not mandatory. Because prime vendors and subcontractors enter into their own agreements, payment terms vary considerably. For example, one of NYC Aging's prime vendors (IPRHE) stipulated in its agreement with one of its subcontractors (Salsa Catering) that "IPRHE shall pay Vendor within 60 to 90 days of receipt of the monthly invoice." A payment made 60 to 90 days after receipt of an invoice is not considered the norm for the City or in day-to-day business, where payment is expected within 30 days of receipt of invoice.

In addition, City fiscal policy requires that for cost-based contracts, prime vendors must demonstrate that payments to subcontractors were actually incurred by the prime as a basis for seeking reimbursement from the City. This requires proof that subcontractors were actually paid for the goods and services they provided, and arguably, such proof should be submitted with invoices seeking reimbursement. Agencies should ensure subcontract agreements provide for prompt payment of subcontractors, and further, they should ensure that proof of payment to the subcontractors is received before approving an invoice seeking reimbursement for a related cost. As stated earlier, through PASSPort's Subcontractor Module, agencies will be able to validate the prime vendors' payments to subcontractors and gain information on the duration between invoice and payment dates.

DOI's Recommendations Related to Subcontractor Oversight Have Not Been Fully Implemented

In its 2021 report, DOI made 23 recommendations intended to “strengthen the budgeting, invoicing, and auditing of the nonprofit contracts.”⁶ Of these 23 recommendations, 18 were directed at the respective agencies and five were directed at MOCS. Of the 18 agency recommendations, seven can be considered recommendations that relate to agencies' oversight of primes' subcontracting. (Appendix I shows the list of seven recommendations.)

The auditors found that the audited agencies have not fully implemented DOI's recommendations. On April 22, 2025, our office met with MOCS and MORMC to discuss implementation of the recommendations by the agencies. MOCS explained that it (along with MORMC) is working with HHS agencies through a Health and Human Services Vendor Compliance Cabinet to develop and issue Citywide policies to try to implement DOI's recommendations. The auditors note in this regard that the DOI Report's recommendations were published in 2021, approximately four years ago. MOCS later communicated in a June 2025 email that the City is in the process of implementing the first DOI recommendation.

Taking a proactive approach to ensuring that prime contractors are complying with their contracts and City policy will strengthen ACS' oversight responsibilities and benefit the City as a whole.

M/WBE Spending

Less Than 5% of Spending on For-Profit Subcontractors on Sampled Human Services Contracts Went to M/WBEs

Human Services contracts do not fall under the City's mandatory M/WBE participation goals. In its annual report on M/WBE procurement, this office stated that Human Services contracts accounted for the largest share—in both volume and value—of contracts in FY2024.⁷ During FY2024, \$6.2 billion (29.4%) of the \$21.1 billion spent on prime contracts for the five agencies were Human Services contracts. According to Checkbook NYC, 9.9% of the funds spent by these agencies on prime contracts in FY2024 were paid to M/WBEs.

Due to the lack of information in PIP regarding agencies' subcontractors and payment amounts, auditors could not identify the total number of subcontractor payments on the five agencies'

⁶ DOI Report on Corruption Vulnerabilities in the City's Oversight and Administration of Not-for-Profit Human Services Contracts, November 2021.

⁷ New York City Comptroller Annual Report on M/WBE Procurement, FY24 Findings and Recommendations, February 2025.

Human Services contracts or the percentage of such payments that went to M/WBEs. Because of this, the auditors' testing was limited to the sampled contracts.

Auditors obtained the general ledgers for FYs 2022 through 2024 for the sampled contracts and calculated the total payments to for-profit subcontractors during those years. Of the five agencies, HRA's vendors on the sampled contracts did not utilize any for-profit firms as subcontractors. (Not-for-profit firms are not eligible for M/WBE certification.) For the remaining four agencies, the auditors found that 52 subcontractors were used to support the sampled contracts, of which 22 were for-profit vendors for which M/WBE firms could be utilized. Of the 22 for-profit vendors, only four were certified as M/WBEs by the City's Department of Small Business Services. Payments made to these M/WBEs from FY2022 through FY2024 totaled \$168,564—4.7% of the \$3.6 million total paid to the for-profit subcontractors, as shown in Table 6 below.

Table 6: M/WBE Subcontractor Utilization on Sampled Contracts for FY2022 Through FY2024

Agency	Number of For-Profit Subcontractors on Sampled Contracts	Total Amount Paid to For-Profit Subcontractors	Number of M/WBE Subcontractors Utilized on Sampled Contracts	Amount Paid to M/WBE Subcontractors	M/WBE Share Percentage
NYC Aging	9	\$2,308,463	1	\$113,819	4.9%
DOHMH	7	\$634,114	1	\$32,500	5.1%
ACS	2	\$168,882	0	0	0%
DHS	4	\$514,404	2	\$22,245	4.3%
Totals	22	\$3,625,863	4	\$168,564	4.7%

*Subcontractors were utilized in more than one year.

According to officials at DOHMH, prime vendors are encouraged to utilize M/WBEs when procuring subcontracting services from for-profit entities. The auditors suggest that agencies encourage, or continue to encourage, their prime vendors to increase use of M/WBE subcontractors in future, to assist the City in meeting its broader equity goals.

Recommendations

The auditors proposed the following recommendations, which are based on the findings contained in the above-noted audits. If these recommendations are implemented on a Citywide basis, they would help make the process by which agencies oversee the use of subcontractors on Human Services contracts more consistent and mitigate the risk of fraud, misuse, and waste of City funds.

Agencies should:

1. Prevent payments to unapproved subcontractors by carefully reviewing invoices submitted by the prime vendors, periodically reviewing prime vendors' general ledgers, and requesting and reviewing subcontractors' agreements and invoices.

Agency Responses: DFTA and DOHMH agreed with this recommendation. DSS and ACS did not.

2. Ensure that prime vendors are submitting subcontractors' information including sub agreements and payment information as required in PASSPort (previously PIP and HHS systems).

Agency Responses: DFTA, ACS, and DOHMH agreed with this recommendation; DSS partially agreed.

3. Document the process of vetting and conducting background checks of proposed subcontractors.

Agency Responses: DFTA and ACS agreed with this recommendation; DSS did not. DOHMH argues that a process is already in place (despite the audit findings).

4. Ensure that competitive bidding is conducted by prime vendors when selecting subcontractors.

Agency Responses: This recommendation applied to DFTA, DOHMH and DSS. Only DSS disagreed.

5. Review subcontract agreements for prompt payment stipulations and ensure that prime contractors are paying their subcontractors in accordance with those stipulations.

Agency Responses: DFTA and DOHMH agreed with this recommendation; DSS partially agreed; and ACS did not address this recommendation.

6. Ensure costs for goods and services provided by subcontractors are actually incurred by prime vendors as a condition of reimbursement from the City.

Agency Response: This recommendation only applied to DFTA, which agreed with this recommendation.

7. Implement DOI's 2021 recommendations to City agencies and comply with MOCS' policies and directives created to provide guidance for their implementation.

Agency Responses: This recommendation applied to DFTA, ACS, and DSS. DFTA and ACS agreed with this recommendation but DSS did not.

8. Consider increasing their use of M/WBE contractors and encourage their prime vendors to increase their use of M/WBE subcontractors.

Agency Responses: DFTA and ACS agreed with this recommendation; DSS disagreed. DOHMH found it unnecessary, arguing that it already uses M/WBE vendors.

Appendix

DOI's 2021 Recommendations Related to Oversight of Subcontractors

DOI Recommendation Number	DOI Recommendation	As Per Information Provided by MOCS on June 9, 2025
1	Agencies should require human services contractors to complete a standard disclosure and certification form that will assist in identifying potential conflicts of interest and noncompliance with the City's competitive bidding requirements.	<p>The City is in the process of implementation:</p> <ul style="list-style-type: none"> The NYC Conflict of Interest and Related Party Transactions Policy and Guidance for Contractors of Human Services was adopted by the HHS Vendor Compliance Cabinet on January 28, 2025, was issued by MOCS Directive to HHS Agencies on March 3, 2025, and was issued to vendors by DFTA on or around April 16, 2025. The required disclosure questions will be added to the HHS Prequalification Application in August 2025, and vendors will respond with applicable disclosures when they next submit a Prequalification Application.
4	Agencies should direct and train budget review staff to implement standard operating procedures similar to those identified in Appendix 4 to review proposed subcontractor expenses. The review should include determinations of whether subcontractors have been entered into the City's Payee Information Portal and whether subcontractors have completed PASSPort disclosures as required. It should also include a basic integrity review of each subcontractor, including whether subcontractors are related to key people at the contractor, as well as review of documentation to ensure that there was a bona fide competitive bidding.	MOCS and MORMC are working along with the HHS Vendor Compliance Cabinet on Citywide policy to be implemented in the future.
8	Agencies should require contractors to submit a general ledger report supporting each HHS Accelerator invoice. Agency staff should review the general ledger report to confirm expenses support the	MOCS and MORMC are working along with the HHS Vendor Compliance Cabinet on Citywide policy to be implemented in the future.

DOI Recommendation Number	DOI Recommendation	As Per Information Provided by MOCS on June 9, 2025
	invoiced amounts and are allocated properly prior to approving payment.	
9	Agencies should review a more significant sample of supporting documentation prior to approving payment and should provide more specific guidance to agency staff as to what factors in a payment request warrant further review.	MOCS and MORMC are working along with the HHS Vendor Compliance Cabinet on Citywide policy to be implemented in the future.
11	Agencies should evaluate whether the contractor's procurement policies are subject to appropriate internal controls and that competitive bidding is employed as required.	MOCS and MORMC are working along with the HHS Vendor Compliance Cabinet on Citywide policy to be implemented in the future.
13	Agencies should require that program staff, who are best prepared to identify inappropriate or disallowable expenses, review and approve invoices to confirm expenses are consistent with program operations.	
15	Agencies should conduct audits for any provider that cannot provide requested backup documentation in accordance with the Standard Invoice Review Policy during the fiscal year	





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