



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

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Deputy Comptroller for Audit

Audit Report on Advance Payments
Made by the Department of Homeless
Services to Adult Shelter Providers

FP17-099A

January 17, 2018

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

January 17, 2018

To the Residents of the City of New York:

My office has audited the New York City Department of Homeless Services (DHS) to determine whether advance payments made by DHS to Adult Shelter Providers were issued and recouped in accordance with registered contracts and applicable policies and procedures. We audit City agencies such as DHS as a means of increasing accountability and ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

The audit found that DHS did not consistently follow the procedures in effect during the audit scope period for the issuance and recoupment of the payments it advanced to providers. As a result, as of September 14, 2017, or approximately three months into Fiscal Year 2018, DHS had failed to recoup \$11.8 million it had advanced to providers in two prior fiscal years, consisting of \$75,704 advanced for Fiscal Year 2015 and \$11.7 million advanced for Fiscal Year 2016.

The audit makes seven recommendations to DHS, including that DHS should: develop and implement a plan to recoup the \$11.8 million in outstanding advance payments; ensure that requests and approvals for advances are properly tracked and documented; document, track, and reconcile all recoupments made via checks received from providers and assignments; limit advance payments to amounts that can reasonably be recouped under the contract; finalize the two contracts and fiscal year close-outs from Fiscal Years 2015 and 2016 that had not been closed out by September 2017; ensure that all future contracts and fiscal year close-outs are completed soon after contract termination or submission of the final invoice for the fiscal year; and evaluate recent policy changes to ensure funds are not being put at risk. The audit also makes two recommendations to the Mayor's Office, including that the Mayor's Office should conduct a comprehensive assessment of the functionality and system controls in DHS's Accelerator system, and evaluate recent DHS policy changes to ensure funds are not being put at risk.

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

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink that reads "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER

FINANCIAL AUDIT

Audit Report on Advance Payments Made by the Department of Homeless Services to Adult Shelter Providers

FP17-099A

EXECUTIVE SUMMARY

The New York City Department of Homeless Services (DHS) is the City agency responsible for providing temporary emergency shelter and social services to eligible homeless adults and families. DHS contracts with nonprofit and for-profit entities to provide those services. While these contracts generally provide for payment only after services have been provided, DHS's contracts allow the service providers to request and receive cash advances in anticipation of services to be rendered. During the two-year period that was the focus of the audit, DHS's Human Service Providers Fiscal Manual (Fiscal Manual) prescribed four principal conditions for such advance payments to be made: (1) an advance could be given only at two designated points in time—the beginning of the contract term, and the beginning of each of the City's fiscal years during the contract term; (2) an advance could be used only to cover allowable costs for the provision of shelter and social services under the contract; (3) the maximum amount of any advance would be 2/12th of the annual contract amount; and (4) DHS would fully recoup any advance against the provider's monthly invoices during the fiscal year in which the advance was made. This audit examined whether advance payments made by DHS to Adult Shelter Providers were issued and recouped in accordance with the terms of the relevant registered contracts and with the DHS's policies and procedures set forth in its Fiscal Manual that were applicable during the audit scope period, Fiscal Year 2015 and Fiscal Year 2016 (July 1, 2014, through June 30, 2016).

Audit Findings and Conclusions

DHS did not consistently follow its procedures for the issuance and recoupment of the payments it advanced to providers. As a result, as of September 14, 2017, or approximately three months into Fiscal Year 2018, DHS had failed to recoup \$11.8 million it had advanced to providers in two prior fiscal years, consisting of \$75,704 advanced for Fiscal Year 2015 and \$11.7 million advanced for Fiscal Year 2016.

In particular, our audit found:

- 50 instances in which advance payments to providers exceeded the amounts allowed by DHS's written policies and procedures;
- 62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year, contrary to its policies; some of those advances were disbursed as late as 10 months into the fiscal year, and two were made *after* the end of the fiscal year; and
- 45 instances in which DHS did not effectively track advance payments made to providers or did not adhere to its own schedule for recouping them.

In addition, the audit found:

- 3 instances in which DHS "recouped" advances and then immediately "reinstated" them, thereby, in effect, the agency rolled the outstanding balances forward into the next month, and in one instance, into the next fiscal year; and
- 2 instances in which DHS, as of September 2017, had not yet finalized contract close-outs and, as a result, had not fully recouped outstanding advances, for one contract from Fiscal Year 2015 and another from Fiscal Year 2016.

Our audit revealed that DHS failed to consistently comply with its policies and procedures for the issuance, tracking, and recoupment of advance payments and thereby did not fully recoup all advance payments made to providers during the two fiscal years covered by the audit. Some of those uncollected advances remained outstanding as of September 2017, more than 14 months after the end of Fiscal Year 2016 (the most recent fiscal year covered by the audit), with no specific timetable for repayment.

In March 2017, while this audit was in progress, and again in July 2017, DHS revised its Fiscal Manual to: (1) increase the amount of its standard contract advance to 25 percent of the annual contract budget; (2) explicitly permit "exceptions," specifically, additional advances against the contract budget "should the three-months [25 percent] advance prove insufficient;" and (3) permit DHS to extend the recoupment schedule from one fiscal year to the next or, alternatively, to allow providers to "reimburse the agency directly through a payment plan" in cases where the provider's "final invoice fall[s] short of the amount to be recouped."¹

In effect, the revised Fiscal Manual now formally permits several of the practices that we found DHS to have followed during the audit period, which were inconsistent with its Fiscal Manual in effect at that time. Specifically, the audit found that DHS issued advances that exceeded standard maximums and allowed significant sums advanced to contract providers to go uncollected for increasingly long periods of time. These uncollected balances remained outstanding at the conclusion of the audit with no specific timetable or plan for repayment. By revising the Fiscal Manual to expressly allow the recoupment of a contract advance through a "payment plan" rather than scheduled deductions from contract payments, DHS now appears to permit unsecured extensions of credit that may expose the City to an increased risk of loss.

¹ The changes made to DHS's Fiscal Manual reflect City-wide changes instituted in April 2017, through the Nonprofit Resiliency Committee (NRC), formed in 2016. Based on NRC's work, the City adopted new fiscal policies that: (1) lifted established maximum limits on advances; and (2) allows reasonable accommodations to the recoupment schedule. According to the new City policy, "All eligible contracts can initiate an advance request equivalent to at least 25% of their fiscal year budget." In addition, "the City will make reasonable accommodations to the recoupment schedule to ensure operational continuity based on the financial situation and cash flow needs of the providers." The policy further states, "Once all invoices have been submitted, any unrecovered advance will be owed to the City."

Audit Recommendations

To address the issues identified in this audit, we make the following nine recommendations, seven to DHS and two to the Mayor's Office.

DHS should:

- Develop and implement a plan to recoup the \$11.8 million in outstanding advance payments made for Fiscal Years 2015 and 2016.
- Ensure that requests and approvals for advances in excess of the 25 percent allowed by the new Fiscal Manual are properly tracked and documented.
- Document, track, and reconcile all recoupments made via checks received from providers and assignments until Accelerator is updated and able to reflect this information.
- Limit advance payments to amounts that can reasonably be recouped under the contract. In cases where advanced funds cannot be fully recouped on schedule, formally establish an alternative recoupment plan that is documented, implemented, and tracked to ensure that advances are fully recouped.
- Finalize the two contracts and fiscal year close-outs for the two fiscal years cited in the report.
- Ensure that all future contracts and fiscal year close-outs are completed soon after contract termination or the submission of the final invoice for the fiscal year which should occur a short time after September 1st.
- In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.

The Mayor's Office should:

- Conduct a comprehensive assessment of Accelerator functionality and system controls and determine whether it is feasible to:
 - Implement system edits that prevent advance payment requests made after the beginning of the fiscal year from being approved and processed in Accelerator without written justifications and executive level approval.
 - Implement system edits that would allow advance recoupments made via checks or assignments to appear as an offset to an advance and be reflected accordingly in the system instead of continuing to appear as outstanding.
- In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.

Agency Response

In the response submitted by the New York City Department of Social Services (DSS) on behalf of DHS, the agency agreed with two of seven recommendations and disagreed with the remaining five audit recommendations. However, in its response, DSS refers to actions that have been taken to address the issues identified in this audit, including ongoing efforts that have been made to recoup outstanding advance balances from DHS's Fiscal Years 2015 and 2016 contracts. In its response, DSS also stated that the "audit took place while the Department of Homeless Services . . . was in the midst of a significant reorganization, and had undertaken a significant examination and reform of many of the very policies and processes at issue in this audit." DSS's response refers specifically to the integration of DHS within DSS and the issuance of a new Fiscal Manual, effective July 2017—one year after the audit scope period. Accordingly, the new policies and procedures referenced in DSS's response were not in effect during the scope of our audit. Moreover, it is not clear that those new policies and procedures are intended to—or will—result in the timely recoupment of DHS's advance payments to adult shelter providers because the new policies and procedures have effectively *removed* previous maximum limits on the amounts of money DHS may advance, and they expressly permit unrecouped advances to remain outstanding from one year to the next, with no clear deadline for recoupment, such as the expiration of the contract in which the advances were paid.

AUDIT REPORT

Background

DHS is the City agency responsible for providing temporary emergency shelter and social services to eligible homeless adults and families.² To provide those services, DHS contracts with nonprofit and for-profit entities. While these contracts generally provide for payment only after services have been provided, DHS's contracts allow these service providers to request cash advances in anticipation of services to be rendered. Under the guidance of the Fiscal Manual applicable during our scope period, advances must be used to cover allowable costs for the provision of shelter and social services under the contracts and must be paid back in full by the year-end close-out for the fiscal year in which the advance was given. This audit examined advance payments made to providers that contracted with DHS to provide shelter and social services to eligible homeless single adults (Adult Shelter Providers) during Fiscal Years 2015 and 2016.

DHS's Fiscal Manual presents information, including fiscal and administrative policies, procedures and forms, to guide shelter-service providers in managing their contracts in conformity with contractual and fiscal requirements, and applicable laws and regulations. Among other things, the Fiscal Manual prescribes procedures for the timing and amounts of advance payments that providers may request and that DHS may issue to them and establishes a schedule for the recoupment of such advances. Under those procedures, DHS is responsible for reviewing and approving providers' advance payment requests and for recouping all advance payments made.

According to the version of the Fiscal Manual that was in effect during the audit period, advance payments could be requested and made "at the beginning of the contract term and each of the city's fiscal years (7/1 to 6/30)," and would not exceed "two (2) months or 2/12th of the annual contract amount." In addition, the Fiscal Manual required that providers' contracts be registered with the Office of the Comptroller and their related budgets approved by DHS before advance payments could be issued. Further, the Fiscal Manual established a schedule for DHS to fully recoup advance payments during the same fiscal year in which they were given. Specifically, half of the amount advanced to the provider was to be recouped in five equal installments—10 percent each month from the January through May invoices—and the remaining half (50 percent) was to be recouped from the provider's June invoice, also known as the "close-out" invoice for that fiscal year. Moreover, to reinforce the prescribed standard of full recoupment of advance payments in the same fiscal year, the Fiscal Manual stipulated that DHS could increase monthly recoupment amounts or recoup funds sooner than provided by the schedule if it anticipated that it would not be able to otherwise fully recoup outstanding balances by the June close-out.

During Fiscal Years 2015 and 2016 (July 1, 2014 through June 30, 2016), DHS had contracts with Adult Shelter Providers in the amounts of \$307 million in Fiscal Year 2015 and \$335 million in Fiscal Year 2016. During those fiscal years, DHS made advance payments to those providers totaling \$55.4 million and \$82.7 million, respectively, as detailed in Table 1.

² In April 2016, towards the end of Fiscal Year 2016, the Mayor designated the Commissioner of DSS to exercise executive oversight of DHS in addition to his existing authority over the City's Human Resources Administration.

Table 1

Advance Payments Made to Adult
Shelter Providers for Fiscal Year
2015 and Fiscal Year 2016

	Fiscal Year 2015	Fiscal Year 2016
Total Number of Contracts	70	64
Number of Contracts for which Advance Payments Were Made	64	60
Number of Advance Payments	84	93
Total Amount of Contracts	\$307,297,424	\$334,835,046
Total Amount of Advance Payments	\$55,420,191	\$82,717,330
Percentage of Contract Amounts Advanced	18%	25%

In March 2017 and again in July 2017, while this audit was in progress, DHS revised its Fiscal Manual to allow advances exceeding previously established maximums and deferred recoupment schedules that could extend into subsequent fiscal years and, apparently, after the close-out of the final contract invoice. Those new expanded limits for advance amounts and the extended time table for recoupments, adopted as formal procedures, are some of the practices our audit identified as having led to significant uncollected balances owed to DHS for increasingly long periods. The new recently revised procedures, however, did not apply during the audit scope period, July 1, 2014, through June 30, 2016.

Objective

The objective of this audit was to determine whether advance payments made by DHS to Adult Shelter Providers were issued and recouped in accordance with registered contracts and applicable policies and procedures.

Scope and Methodology Statement

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

The scope of this audit covered Fiscal Year 2015 and Fiscal Year 2016 (July 1, 2014, through June 30, 2016). Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DHS and DSS officials during and at the conclusion of this audit. A preliminary draft report was provided to DHS and DSS and discussed at an exit conference held on June 2, 2017. At the exit conference, DHS and DSS officials provided additional information which was considered in the preparation of this report. On October 24, 2017 we submitted a draft report to DHS and DSS with a request for written comments. We received a written response from DSS on behalf of DHS on November 21, 2017.

In its response, DSS, on behalf of DHS, agreed with two of seven recommendations. While DSS disagreed with the remaining five audit recommendations, its response refers to certain actions the agency has taken to address issues identified in this audit, including an ongoing effort to recoup outstanding advance balances from DHS's Fiscal Years 2015 and 2016 contracts. DSS stated that the "audit took place while the Department of Homeless Services . . . was in the midst of a significant reorganization, and had undertaken a significant examination and reform of many of the very policies and processes at issue in this audit." DSS's response refers specifically to the integration of DHS within DSS and the issuance of a new Fiscal Manual, effective July 2017. However, the new policies and processes that DSS refers to were not in effect during the scope of our audit. Moreover, it is not clear that those new policies and procedures are intended to—or will—result in the timely recoupment of DHS's advance payments to adult shelter providers, because the new policies and procedures have effectively *removed* previous maximum limits on the amounts of money DHS may advance, and they expressly permit unrecouped advances to remain outstanding from one year to the next, with no clear deadline for recoupment, such as the expiration of the contract in which the advances were paid.

DSS disagreed with our assessment that the new Fiscal Manual appears to permit unsecured extensions of credit to shelter providers. Nevertheless, DSS's response acknowledges that recoupments may be deferred from one fiscal year to the next and may be recouped from other than contract funds. Specifically, DSS states, "in rare cases where expenses in one fiscal year prove to be insufficient to recoup the total advance, providers can remit payment by check, . . . or the agency may recoup in the following fiscal year."

We question two premises of DSS's response. First, notwithstanding DSS's characterization of the deferral of recoupments from one fiscal year to the next as "rare," the audit demonstrated that it has become commonplace; in September 2017, the third month of Fiscal Year 2018, DHS had not yet recouped \$11.8 million that it had advanced *more than a full fiscal year earlier—in Fiscal Years 2015 and 2016*. In addition, DSS's response fails to identify any safeguard in the new Fiscal Manual that would require that all funds advanced on a particular contract be recouped from funds allocated to *that contract*. For example, nothing in the new Fiscal Manual states that all advances must be recouped no later than close-out of the final invoice of a multi-year contract. After that close-out, there will be no further payments in the "following fiscal year" from which outstanding advances can be recouped. By eliminating any absolute deadline for full recoupment, allowing for the recoupment of advances from sources other than contract payments, the new Fiscal Manual effectively permits an unsecured extension of credit by the City to the provider and thereby exposes City funds to an increased risk of loss, for example, if a provider becomes insolvent.

The full text of DSS's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

DHS did not consistently follow its procedures for the issuance and recoupment of the payments it advanced to providers. As a result, as of September 2017, DHS had failed to recoup \$11.8 million consisting of \$75,704 advanced for Fiscal Year 2015 and \$11.7 million advanced for Fiscal Year 2016.

In particular, our audit found:

- 50 instances in which advance payments to providers exceeded the amounts DHS's written policies and procedures allowed;
- 62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year contrary to its policies; some of those advances were disbursed as late as 10 months into the fiscal year and two were made *after* the end of the fiscal year; and
- 45 instances in which DHS did not effectively track advance payments made to providers or did not adhere to its own schedule for recouping them.

In addition, the audit found:

- 3 instances in which DHS "recouped" advances and then immediately "reinstated" them, thereby, in effect, the agency rolled the outstanding balances forward into the next month, and in one instance, into the next fiscal year; and
- 2 instances in which DHS, as of September 2017, had not yet finalized contract close-outs and, as a result, had not fully recouped outstanding advances, for one contract from Fiscal Year 2015 and another from Fiscal Year 2016.

Based on our audit, DHS failed to comply with one or more aspects of its policies and procedures for the issuance, tracking, and recoupment of advance payments and as a result, did not fully recoup all advance payments made to providers.

These issues are discussed in the following sections of this report.

DHS Has Yet to Recoup Advance Payments Totaling \$11.8 Million

As of September 2017, DHS had not yet recouped \$11.8 million in advance payments it made to 13 providers on 27 contracts for Fiscal Years 2015 and 2016. Specifically, DHS had not recouped \$75,704 of the \$55.4 million it advanced for Fiscal Year 2015, and \$11.7 million of the \$82.7 million it advanced for Fiscal Year 2016.

According to the DHS's Fiscal Manual applicable during our audit scope period, providers could request cash advances at the beginning of a fiscal year to cover allowable shelter and social services contract costs. Those advanced payments were supposed to be fully recouped through deductions from monthly invoices beginning midyear to the time the providers' June invoices were processed (the fiscal year-end or contract close-out invoices). Thus, the premise of the advance payment was that a provider can obtain funds to cover contract expenses at the beginning of a fiscal year, before billing DHS for services provided, and subsequently repay those advanced funds through set-offs from its billings during that same fiscal year. However, our audit found that in many instances DHS did not fully recoup advance payments as a result of its deviations from

one or more of its then-applicable policies and procedures related to the issuance, tracking, and recoupment of advance payments.

We asked DHS to explain why it had not recouped advance payments for Fiscal Years 2015 and 2016 in a timely manner. We further requested documentation to show whether and how DHS plans to recoup the outstanding advance payments balances totaling \$11.8 million. In response, DHS stated,

DHS plans to and always recoups outstanding advances. They have not been recouped [due to] pending [contract] renewals, amendments [and] registrations preventing DHS from providing sufficient cash-flow for the Provider to keep operations afloat.

However, DHS's response fails to fully address our inquiry. Among other things, DHS did not provide any documentation to show how it plans to specifically recoup the Fiscal Year 2015 and Fiscal Year 2016 outstanding advance payments totaling \$11.8 million.

Further, during the course of the audit, DHS did not properly document the need for the additional advances and/or the justification of delayed recoupments. Nor did it describe how it plans to eliminate or at least minimize their reoccurrence in the future.

Agency Response: "DHS disagrees with this recommendation [sic]. DHS has plans in place for recouping all of the remaining balances. We are actively working within the scope of those plans to recover any remaining advances. Based on the documentation received from the Comptroller's office on 11/03/17 this \$11.8M represents 14 providers and 22 contracts. As of this writing, \$4.5 M of the outstanding advance payments has been successfully recouped which represents 38% of the total funds advanced."

Auditor Comment: The agency's response does not refute the audit's findings. Moreover, although DHS states that it has plans in place for recouping all remaining balances, the agency did not provide documentation demonstrating that those plans exist or documentation to support its stated recoupment of the \$4.5 million referenced in its response. We continue to recommend that DHS develop and implement a plan to recoup the balances, which have remained outstanding for almost two fiscal years.

DHS Issued Advance Payments to Providers in Excess of the Amounts Allowed

Our review found 50 instances in which DHS issued advance payments totaling \$38.6 million in excess of the maximum amounts allowed by its own guidelines. According to DHS's contracts, "[t]he amount of any advance . . . shall be determined by the Department in accordance with its Fiscal Manual." The Fiscal Manual, in turn, states that

[p]roviders may request from DHS an advance in payment for services to be rendered under the contract. An advance will be given at the beginning of the contract term and each of the city's fiscal years (7/1 to 6/30). The maximum amount of the advance will be two (2) months or 2/12th of the annual contract amount.

We found that, notwithstanding these instructions, DHS repeatedly approved payments that exceeded the "maximum amount" specified in its Fiscal Manual.

We further found that although DHS has an extensive advance-payments-review process, that process does not include adequate tracking and documenting to ensure that advance payments do not exceed the maximum amounts allowed. Advance payment requests are initiated by providers and reviewed and approved by DHS in Accelerator, the City's central human services procurement and financial transaction computer system. However, Accelerator does not have built-in system edits to prevent advance payment requests that exceed prescribed maximum amounts from being routinely approved and processed, absent an additional level of management review and approval. Based on our review of DHS's payments on 77 unique contracts for Fiscal Years 2015 and 2016, we found that DHS made advance payments that exceeded the maximum amounts allowed by a combined total amount of \$38.6 million as detailed in Table 2.³

³ In Fiscal Year 2015 and Fiscal Year 2016, there were 64 and 60 contracts, respectively, that received advance payments, a two-year total of 124. Because DHS's contracts may span multiple years, the total number of unique contracts that received advance payments during those two years was 77.

Table 2

Advance Payments That Exceeded
Prescribed Maximum Amounts for
Fiscal Year 2015 and Fiscal Year
2016

	Fiscal Year 2015	Fiscal Year 2016	Two-year Total
Contracts			
Number of Contracts per Year on which Advance Payments Were Made	64	60	124 (77 unique contracts)
Number of Contracts per Year on which Advance Payments Exceeded Prescribed Maximum Amounts	18	32	50 (38 unique contracts)
Dollar Amounts			
Maximum Prescribed Amount of Advance Payments for Contracts for which Advance Payments Were Made	\$19,856,706	\$36,930,541	\$56,787,247
Advance Payments Made by DHS	\$28,066,792	\$67,394,425	\$95,461,217
Amount by which Advance Payments Made by DHS Exceeded Prescribed Maximum Amounts	\$8,210,086	\$30,463,884	\$38,673,970

In response to this finding, DHS stated that the “[t]wo-months is the minimum level, only a guideline to minimize the volume and amounts of requests.” However, DHS’s statement directly contradicts the relevant provision of its own Fiscal Manual in effect during the two year audit period which expressly states,

The *maximum* amount of the advance will be two (2) months or 2/12th of the annual contract amount. [Emphasis added.]

Accordingly, the Fiscal Manual that was in effect during the audit period referred only to the “maximum” advance prescribed and not to a “minimum.”

Moreover, DHS’s additional explanation of its process, that “secondary advances [those exceeding the two-month maximum] are approved at the Director Level and that anything further is approved at the AC [Assistant Commissioner] level” merely reiterates the process for approval that is required for all advances. Finally, to the extent DHS adopted an alternative standard, the agency did not require providers to explain, nor did DHS document why the advance of an amount equivalent to two months’ payments was insufficient. Thus, we found no evidence that any additional justification or showing of a provider’s ability to repay was required for an advance being made above the maximum level allowed by the Fiscal Manual.

Agency Response: “The Fiscal Manual was never intended to be standard operating procedures for internal staff and managers. The primary intention of the manual was to provide guidelines to vendors on our general practice of advancing and recouping funds against their contracts. . . . In any case, as part of the reforms of homeless services, the Fiscal Manual has been revised and a procedure for the approval and issuance of advances in excess of the standard 25% is fully in place.”

Auditor Comment: The Fiscal Manual is a document that DHS provided to our office in response to our request for the policies and procedures in place for the management of contracts with homeless shelter providers. In that regard, the agency’s current rejection of its own Fiscal Manual is equivalent to stating that the information the agency disseminated to its providers through that manual regarding its “general practices” did not necessarily reflect its actual practices. Moreover, inasmuch as the agency also states, elsewhere in its response, that its “**new DHS Fiscal Manual**, released in July of 2017, **provides both providers and DHS staff with clear directions**” [emphasis added], we note that the old and new Fiscal Manuals contain identical statements regarding their purpose and applicability. Thus, DHS’s suggestion that the old and new Fiscal Manuals were intended to serve different purposes is inconsistent with the statements in both manuals.

DHS Issued Advance Payments after the Period Established by Its Fiscal Manual

DHS issued advance payments after the period authorized by its Fiscal Manual. According to the Fiscal Manual,

Providers may request from DHS an advance payment for services to be rendered under the contract. An advance will be given at the beginning of the contract term and each of the city’s fiscal years (7/1 to 6/30). . . . A Contract Budget **must** be active before an advance payment can be requested and processed. [Emphasis in original.]

Notwithstanding the Fiscal Manual’s statement that an advance payment may be given at the beginning of a contract term and each fiscal year within the contract term, DHS did not have procedures in place to ensure advance payments were issued within this specified time frame. According to DHS, Accelerator does not have built-in system edits that prevent advance payment requests made after the beginning of the year from being approved and processed. Further, we found that DHS frequently approved such requests and that they were then processed through

Accelerator. Specifically, we found 62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year, as described below.

Based on our review, DHS made 84 advance payments for Fiscal Year 2015 and 93 advance payments for Fiscal Year 2016.

- In 62 of those 177 instances, 35 percent, the advances—totaling \$53.6 million—were paid outside of the time frame prescribed by the Fiscal Manual, specifically, they were paid more than 30 days after the start of the fiscal year or after the budgets for the contracts were activated in Accelerator.
- Those 62 advances were paid anywhere from 35 days to as much as 13 months after the beginning of the year or after the providers' contract budgets became active.
- Eight of those 62 advances were paid to providers that had active contracts and had already received initial advance payments at the beginning of the fiscal year—in either July 2014 or July 2015.
- In six of those eight instances the providers requested and DHS approved additional advance payments toward the end of the fiscal year, and in the remaining two instances the advance payments were not made until the following fiscal year. For example, for one contract, DHS made four advance payments to the provider totaling \$3.2 million for Fiscal Year 2015, three of which were made within the fiscal year—in July 2014 for \$764,183, August 2014 for \$1.3 million, and June 2015 (the last month of fiscal year) for \$100,000—with the fourth advance payment being made in the following fiscal year, in July 2015, for another \$1 million.

Given the lateness and frequency of the above-described payments, we question the applicability of the term “advance payments,” which the Fiscal Manual describes as a payment given at the beginning of the fiscal year or contract term. In practice, such payments appear to have been made at any point during the term of a given contract and recoupment/repayment was not always limited to the fiscal year or contract term.

Agency Response: “Upon review of the advance payments cited in this finding, we found that issuance of the payment after the start of the fiscal year was due to either late registration of the contract or budget reviews as discussed above. With regard to additional advances, provider requests are evaluated on a case by case basis by senior DSS fiscal staff. In addition to the provider’s stated need, factors such as contract term and value are evaluated to determine the risk. If the need is found to be valid the issuance of the additional advance will be approved by senior management.”

Auditor Comment: In identifying the advance payments that DHS paid outside of established time frames, we considered both the date the contract was registered and the date the budget became active and considered the advance timely if it was paid within 30 days of the later of those events. Accordingly, delayed registrations and budgets did not *per se* cause the lateness of the advances we cited. With regard to DHS’s explanation for paying additional advances, that is, more than one advance per contract/year, we found no documentation to indicate that its process to evaluate the request for additional funds differed from the process by which it evaluated a provider’s initial request for an advance. In fact, during our audit, DHS officials explained that a provider’s request for additional funds may not always be

documented, and may instead be communicated to DHS through a telephone conversation. In that instance the agency would have no record of the basis of the request or the basis of DHS's approval.

DHS Did Not Effectively Track Advance Payments

DHS did not effectively track advance payments to ensure that they were fully recouped by the fiscal year-end close-out. The Fiscal Manual states that half of the amount advanced to the provider should be recouped in five equal installments (10 percent each month from the January through May invoices) and the remaining half (50 percent) should be recouped at the close-out of the provider's final June invoice.

In addition, the Fiscal Manual further provides that DHS can accelerate recoupment if it appears that there will not be sufficient expenses billed at the time of the end of the Fiscal Year close-out to offset the advances previously made. Specifically, the Fiscal Manual provides that

if the June expenses are anticipated to be less than 50% of the advance issued, DHS reserves the right to increase the amount recouped in April and/or May (first and second recoupment) or to start the recoupment process earlier, to ensure that the advance is fully recouped.

Nonetheless, the audit found that as of September 14, 2017, DHS had not recouped \$11.8 million for advance payments it made during Fiscal Years 2015 and 2016. DHS generally recorded and tracked advance payment recoupments by manually adjusting invoices its providers submit through Accelerator and reducing the corresponding payments on those invoices to the adjusted amount. To monitor these advance payments and recoupments, DHS maintained "tracking sheets" using Excel. Based on our review of DHS's Excel tracking sheets for the contract advances in our audit scope period, in 18 of the 32 instances (56 percent), DHS did not conduct any analysis that would allow it to anticipate recoupment shortfalls, adjust recoupment schedules accordingly, and ensure full recoupment by the year-end close-out. In addition, we found one instance where DHS issued three advance payments to one provider totaling \$3.3 million but failed to record one of those advance payments of \$304,415 in the Excel tracking sheet, thus making the tracking sheet unreliable.

Finally, Accelerator does not record and track all recoupments. Generally, recoupments are made through offsets against funds DHS pays to providers referred to as "advance recoupments." Our audit found that if an un-recouped advance payment remained outstanding after DHS's close-out of a given contract, DHS might request that the provider reimburse DHS by check or the agency might recoup the funds through an assignment.⁴ However, we found that DHS did not record in Accelerator the recoupments it received in the form of checks from the providers. In addition, recoupments made through assignments were not reflected in Accelerator against outstanding advance amounts. These omissions from Accelerator make tracking more difficult. For example, in one instance, both Accelerator and DHS's tracking sheets indicated that a provider had an outstanding recoupment amount in Accelerator of \$124,906. When we questioned DHS about this, agency officials provided copies of the check paid by the provider in the outstanding amount. Upon our request for an explanation, DHS stated that "Accelerator is not updated; [which is] another reason Human Service Payments [Officers] keeps spreadsheets." However, in fact, the related spreadsheets reflected that the payment submitted by the provider in the amount of

⁴ According to DHS, assignments enable DHS to recoup prior year advances by assigning payments to DHS against current year providers' invoices, among other things.

\$124,906 remained outstanding. When we asked DHS for a list of recoupments made via checks, DHS was not able to provide such list.

Agency Response: “DHS disagrees with this finding. HHS Accelerator tracks all advances against the authorized budget for the specific fiscal year preventing total payments from exceeding the authorized budget. In cases where the advance cannot be recouped on schedule, Finance staff will implement an alternative plan. All advances are tracked until they are fully recouped, however improvements to the monitoring and tracking of advance payments and recoupment are being considered by the Agency.”

Auditor Comment: Although DHS disagrees with this finding, we are glad that it is at least considering improvements in its monitoring and tracking of advance payments and recoupment, which the audit shows are needed.

DHS Did Not Adhere to Its Recoupment Schedule

As noted, DHS did not adhere to its schedule for recouping advance payments: 10 percent to be recouped against the January invoice; 10 percent to be recouped each month thereafter from February through May invoices; and 50 percent to be recouped at the close-out.

Although advance payments and provider invoices are processed through Accelerator, the recoupment process is not automated in that system. Instead, beginning with the January invoice, as providers submit invoices in Accelerator, DHS is responsible for reviewing them and making manual adjustments in the system to recoup advance payments from the amounts payable on each invoice.

Our review found that for 45 of the 177 advance payments DHS made in Fiscal Years 2015 and 2016, DHS did not start recouping the advances against the January invoices and/or did not recoup the appropriate percentages in accordance with the schedule established in the Fiscal Manual.

In addition, we identified three instances in which DHS recouped outstanding Fiscal Year 2015 and Fiscal Year 2016 advance payment balances totaling \$1.4 million and immediately “reinstated” them. For example, on January 25, 2016, DHS recouped \$457,940 from a provider’s invoice, but on the following day, DHS “reinstated” the provider’s advance payment for the same amount, in effect, rolling the outstanding advance forward rather than recouping it.

Agency Response: “We disagree with this finding. The Agency adheres to the established recoupment schedule, however there are instances when providers experience cash flow problems. In these instances we retain the right to exercise flexibility with regard to modification of a provider’s recoupment schedule.”

Auditor Comment: When DHS decides to exercise flexibility with regard to modifying a provider’s recoupment schedule, an alternative recoupment plan should be documented, implemented, and tracked to ensure that advances are fully recouped.

DHS Has Not Processed Close-outs for Two Contracts

Our audit found that as of September 14, 2017, DHS had not closed-out two contracts, one from Fiscal Year 2015 and another from Fiscal Year 2016. These two contracts involved advance

payments, of which \$856,928 have not been recouped. The DHS Fiscal Manual states that providers must

submit their final budget modification no later than **September 1** (or the next business day(s) if 9/1 falls on a weekend. . . . If the final budget modification is not received by the deadline (or extended deadline if approved by DHS), the contract will be closed-out based on the last active budget in Accelerator. . . . After the final budget modification is approved, Providers must submit a final invoice within 3-5 business days. [Emphasis in original.]

DHS is responsible for reviewing and approving budget modification requests and invoices. In Fiscal Year 2015 and Fiscal Year 2016, DHS made advance payments on 64 contracts and 60 contracts, respectively. For those contracts, DHS has not finalized two out of the 124 close-out invoices submitted by providers—one for Fiscal Year 2015 and one for Fiscal Year 2016. When presented with this finding, DHS stated that

Closeout delays are usually caused by outstanding amendments needing to be registered by the Comptroller's Office and subsequent budgets needing to be established and approved before the final closeout invoice can be presented.

However, in making this argument, DHS did not provide documentation to substantiate that these two contracts were affected by delays in either the registration of an amendment or approval of a final close-out budget. Accordingly, we could not verify the extent to which amendment registration in fact delayed the close-out and the extent to which DHS may have failed to have taken all appropriate measures to have timely completed these processes. In addition, based on DHS's representation, the close-outs of these two contracts should have been underway for no less than 12—and for as long as 24—months. Although DHS's Fiscal Manual does not specifically prescribe a timeframe or deadline by which DHS must complete fiscal year end close-out, absent a specific, documented external reason for the delay, which was not tendered, DHS's unexplained delays for periods of 12 to 24 months appear excessive.⁵

Agency Response: "DHS agrees with this finding. Closeout of the FY 15 contract cited in the report has been completed. The provider has remitted all funds due the Agency. The FY 16 closeout is in process and all funds will be recouped."

Auditor Comment: Documentation supporting such close-outs is needed to verify that the agency has in fact closed out the FY 15 contract, collected all funds due to the agency thereon, and is in the process of closing out the pending contract from FY 16. DHS had ample opportunity to respond to our findings, and should have provided such documentation.

⁵ Since providers must submit final budget modification requests no later than September 1st or the next business day if September 1st falls on a weekend, we estimated the length of time from the beginning of the close-out process as the difference between September 1, 2015 and September 14, 2016, and September 1, 2015 and September 14, 2017.

RECOMMENDATIONS

We recommend that DHS:

1. Develop and implement a plan to recoup the \$11.8 million in outstanding advance payments made during Fiscal Years 2015 and 2016.

Agency Response: “DSS disagrees with the recommendation. As of this writing, \$4.5M of the outstanding advance payments has been successfully recouped which represents 38% of the total funds advanced. Of the \$7.3M in remaining advance balances, the 14 providers are finalizing the closeout and funds will be recouped. The recoupment letters have been sent to the providers and we are working with them to remit payment.”

Auditor Comment: Although the agency disagrees with this recommendation, its response indicates that as of November 2017, 5 months into Fiscal Year 2018, a balance of \$7.3 million was still owed to the City from Fiscal Year 2016, which had ended 17 months earlier. Moreover, as the agency did not provide documentation to support its reported recoupment of \$4.5 million, we cannot verify that representation. We are glad, however, that in the wake of the audit, the agency has stated that it has taken and will continue to take steps to recoup the funds owed to the City.

2. Ensure that requests and approvals for advances in excess of the 25 percent allowed by the new Fiscal Manual are properly tracked and documented.

Agency Response: “DSS disagrees with the recommendation. A procedure is already in place. The 25 percent is the guideline. Management reserves the right to advance greater than 25 percent and recoup with an alternative plan if necessary. HHS Accelerator tracks advances and recoupments against the current fiscal year budget and prevents the agency from issuing payments that exceed the authorized fiscal year budget.”

Auditor Comment: Although DHS may have a procedure in place to track and document advances above the 25 percent guideline, based on our audit findings, we found that DHS did not always properly track and document advances that exceeded its previous maximum, which was less than 25 percent of the annual contract budget. Considering that the maximum limit has effectively been eliminated in DHS’s new Fiscal Manual, the importance of proper tracking of *all* advance payments, particularly those exceeding the 25 percent guideline is even greater.

3. Document, track, and reconcile all recoupments made via checks received from providers and assignments until Accelerator is updated and able to reflect this information.

Agency Response: “DSS disagrees with the recommendation. This recommendation is unnecessary. All recoupments made via check are documented and reconciled, previously in excel tracking sheets and now in HHS Accelerator.”

Auditor Comment: As stated previously in our report, we found instances in which recoupments were not properly documented and reflected in DHS’s excel tracking sheets or in Accelerator. In addition, DHS did not provide documentation showing

that Accelerator is currently able to document and track recoupments that providers pay by check.

4. Limit advance payments to amounts that can reasonably be recouped under the contract. In cases where advanced funds cannot be fully recouped on schedule, formally establish an alternative recoupment plan that is documented, implemented, and tracked to ensure that advances are fully recouped.

Agency Response: “DSS disagrees with the recommendation. Advances are, in fact, currently limited to amounts that can be recouped under the contract. In cases where advance balances exist in any particular fiscal year during the contract term, providers will remit payment directly to the agency or DSS will recoup from the contract in a subsequent fiscal year. Modifications to the standard recoupment schedule are established in consultation with providers and tracked to ensure advances are fully recouped.”

Auditor Comment: Given the audit finding that \$11.3 million in advances remained outstanding for more than a full fiscal year, and because nothing in the new DHS Fiscal Manual sets an absolute deadline for full recoupment of all advances by the time the contract ends, we urge DHS to reconsider following this recommendation.

5. Finalize the two contracts and fiscal year close-outs for the two fiscal years cited in the report.

Agency Response: “DHS agrees with the recommendation.”

6. Ensure that all future contracts and fiscal year close-outs are completed soon after contract termination or the submission of the final invoice for the fiscal year which should occur a short time after September 1st.

Agency Response: “DHS agrees with the recommendation.”

7. In light of the audit’s findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.

Agency Response: “DSS disagrees with the recommendation. The updated policy reflects the result of a city-wide review that included the other social services agencies and oversight agencies, of advance policies for non-profit social services providers. DSS evaluates all factors when issuing advances and extending recoupment schedules. This includes the value and term of the current contract to ensure risk is minimized.”

Auditor Comment: Since the new Fiscal Manual (1) provides for an increase in the standard advance, (2) permits additional advances without specific limits, and (3) allows for extensions to the recoupment schedule, with no absolute deadline, we urge DHS to reconsider the recommendation that it carefully evaluate its policy changes to ensure that the funds advanced are fully recouped and prevent the further accumulation of outstanding advances.

We recommend that the Mayor's Office:

8. Conduct a comprehensive assessment of Accelerator functionality and system controls and determine whether it is feasible to:
 - Implement system edits that prevent advance payment requests made after the beginning of the fiscal year from being approved and processed in Accelerator without written justifications and executive level approvals.
 - Implement system edits that would allow advance recoupments made via checks or assignments to appear as an offset to an advance and be reflected accordingly in the system instead of continuing to appear as outstanding.

Agency Response: "We have been in contact with the Mayor's Office based on the draft report. The Mayor's Office indicated that with respect to recommendation eight, Accelerator functionality allows City agencies to implement policies that best suit Agency needs; this ensures that all advance requests are reviewed and approved by the appropriate Agency staff."

Auditor Comment: The recommendation for system edits would preserve the agencies' ability to implement policies that best meet their needs while requiring documented justification and executive-level approval by an agency when it issues payments as exceptions to policy, which in this audit totaled millions of dollars. Accordingly, we urge the Mayor's Office to adopt it.

9. In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.

Agency Response: "[C]hanges to the Fiscal Manual reflect recent citywide changes to the advance and recoupment policy implemented through the Non-profit Resiliency Committee."

Auditor Comment: Insofar as the citywide changes (1) increase standard advances, (2) permit additional advances without stated limits, and (3) allow unlimited extensions to the recoupment schedule, we continue to recommend careful evaluation of those policy changes by the Mayor's Office to ensure that the increased risks to City funds are recognized and mitigated.

DETAILED SCOPE AND METHODOLOGY

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

The scope of this audit covers from Fiscal Year 2015 through Fiscal Year 2016 (July 1, 2014 to June 30, 2016). For all procedures detailed below, unless otherwise specified, we obtained documentation, including Accelerator and FMS data, for Fiscal Year 2015 and Fiscal Year 2016.

To gain an understanding of the Accelerator system used by DHS in relation to the issuance and recoupment of advance payments, we conducted walk-through meetings with DSS's Assistant Commissioner of Finance, Director of Fiscal Operations, Finance Director of Human Service Payments, Deputy Commissioner of Audit and Quality Assurance, Sr. Advisor to the Deputy Commissioner of Budget and Finance, Budget Director of Human Service Payments, DHS's Deputy Director of Finance, the Deputy Director of Human Service Payments, and a DHS Payment Officer.

To further obtain an understanding of the policies and procedures over the issuance and recoupment of advance payments, we reviewed the DHS Fiscal Manual and Accelerator guides including the Provider Guide to Navigating Contracts, Budgets, and Amendments; Provider Guide to Invoices and Payments; Agency Guide to Advances; Agency Guide to HHS Accelerator Reports; Agency Guide to the Document Vault, HHS Accelerator Account Administration, and HHS Accelerator Account Creation and Access.

We also reviewed a prior Comptroller's Office *Audit Report on the Samaritan Daytop Village Inc.'s Compliance with Its Contracts with the Department of Homeless Services*, issued on January 24, 2017 (FP16-068A). This audit found that DHS issued Samaritan Daytop Village Inc. an advance payment that exceeded the maximum prescribed amount and that DHS did not fully recoup this advance payment.

To determine the population of advance payments, we obtained the DHS Budget Detail for our scope period, which listed all active contracts and approved annual budgets for the fiscal year. We then obtained electronic Accelerator reports which detailed all advance payments issued for our scope period as well as the related recoupments for each advance. To obtain a population of advance payments made to Adult Shelter Providers, we filtered out other programs such as Adult Respite and Adult Outreach facilities, as well as any bridge-loans that were present in the Advance Runs. We then ran both the FMS Expense Accounting Detail Listing for Disbursements and the FMS Expense Accounting Detail Listing for Payments Request for accounting budget code 9411 (Adult Shelters) and filtered the Vendor Invoice Numbers to reflect all payments noted as "A" or Advance payments. Finally we obtained the Payment Details for our scope period and filtered all invoices to solely reflect "A" or Advance Payments. We then matched the contract numbers found on the DHS Budget Details to the contract numbers found on the FMS Expense Accounting Detail Listing for Payments Request. Finally, we matched the amounts advanced per contract to the amount of advances found on the Payment Details provided by DHS.

To evaluate the data recorded in Accelerator for audit test purposes, we judgmentally selected 20 contracts for review—10 contracts for each fiscal year. We selected the contracts which had the highest advance amounts that were fully recouped.

We compared the information found on payment details to the Accelerator Advance Adult Service Payments and Recoupments to ensure that all contracts appeared on both list. We then obtained the Accelerator invoices on which advance payments were disbursed and the fiscal year-end close-out invoices. Further, we traced the outstanding recoupment amount found on the final invoice to the outstanding invoice amount found on the Reconciliation worksheets provided by the DSS Director of Audit Coordination.

To determine whether DHS issued advances in excess of the allowable amounts, we obtained the Fiscal Year 2015 and Fiscal Year 2016 Detailed Budget Status reports which list all contracts and approved annual budget amounts by fiscal year.

For all contracts in Fiscal Year 2015 and Fiscal Year 2016, we calculated 2/12th of the approved annual budget amount to determine the allowable advance amount. We then compared the allowable advance amounts to the total advance payments that were paid as detailed on the Accelerator Advance Run and the FMS Expense Accounting Detail Listing-Payment Request. We then determined the percentage of advances paid to the total budget. As stated by the criteria, when converted to a percentage, the allowable advance amount of 2/12th should equal 16.67% of the total approved annual budget. We then identified all contracts for which advances exceeded the 16.67%, or 2/12th of the annual approved budget, and quantified the amount by which they exceeded the maximum allowable amount. Finally, we matched the advance amounts to the invoices generated in the Accelerator system.

To determine whether advances were issued in a timely manner, for all contracts that were active at the beginning of Fiscal Year 2015 and Fiscal Year 2016, we identified the time between the beginning of the fiscal year and the electronic funds transfer (EFT) date. For contracts that were registered during the Fiscal Year we compared the registration date to the EFT date. We verified both dates using the Payment Details provided by DHS and FMS Expense Accounting Detail Listing- Disbursement reports for both Fiscal Years. We identified all contracts which were given an advance thirty days or longer after the contract became active (after a contract was registered and the contract budget was approved). We also looked at the dates that the budgets were approved in comparison to the dates that payment advances were issued.

To determine whether all advance payment requests were properly approved, we obtained a detailed Accelerator report of all advance payment requests made by providers and their respective DHS approvals for Fiscal Year 2015 and Fiscal Year 2016. For advance payment requests, we compared approver names on the approval report to DHS's Finance Department Organizational Chart.

To determine whether all advances requested were paid out for contracts with approved budgets, we obtained an Accelerator report with the Budget Approval Dates. Based on the information provided, we obtained the "Audit Date" that reflects the date a contract action was taken and whether the contract was "approved" or "active." We compared the date the contract became active to the date the advance payment was made as per the FMS Expense Accounting Detail Listing- Disbursement reports for both Fiscal Years 2015 and 2016.

To determine whether DHS fully recouped the amounts advanced to Adult Shelter Providers for Fiscal Year 2015 and Fiscal Year 2016, we obtained the Advance Run spreadsheets which detail the amounts of advances given and the recoupments related to the listed advances. We then

traced the advance amounts found on the Advance Run spreadsheets to the amounts found on the Payment Details which show all payments made for each contract and the FMS Expense Accounting Detail Listing- Payment Request which show the disbursements made through the City's FMS system. We then verified and confirmed the amounts recouped found on the Advance Run to the Reconciliation spreadsheets used by payment officers to track payments and recoupments. After verifying the advance and recoupment amounts, we calculated the outstanding recoupment amounts by finding the difference between the advance paid and the advance recouped. Finally, we matched the outstanding recoupment amounts to the invoices generated in the Accelerator system.



**Department of
Social Services**

Human Resources
Administration

Department of
Homeless Services

**Office Of Audit &
Quality Assurance**

November 21, 2017

Steven Banks
Commissioner

Marjorie Landa
Deputy Comptroller for Audit
New York City Office of the Comptroller
1 Centre Street, room 1100
New York, NY 10007

Saratu Ghartey
Chief Program
Accountability Officer

Maria Ciniglio
Deputy Commissioner

Re: Agency Response to the Draft Audit
Report on Advance Payments Made by
DHS to Adult Shelter Providers FP17-
099A dated October 24th, 2017

150 Greenwich Street
New York, NY 10007

929 221 7126

Dear Ms. Landa:

Thank you for sharing with us the Draft Audit Report on Advance Payments Made by DHS to Adult Shelter Providers FP17-099A dated October 24th. We have reviewed the referenced report, and our responses are enclosed.

As a threshold matter, we are concerned that the audit did not include an explicit acknowledgement of the context in which this audit took place. We ask that the Comptroller include, in the introduction to his report, language describing that context, specifically that this audit took place while Department of Homeless Services (DHS) was in the midst of a significant reorganization, and had undertaken a significant examination and reform of many of the very policies and processes at issue in this audit. Specifically, we think it is important for any reader of the report to know that DHS has been in the midst of a significant reorganization as a result of the decision by the Mayor to integrate DHS within the Department of Social Services (DSS), which now includes DHS and the New York City Human Resources Administration (HRA). Both agencies have Administrators who report to the Commissioner of the Department of Social Services. Many administrative functions for both agencies, including contracts and procurement, legal, and finance, have been consolidated and serve both agencies. This new structure was implemented following a comprehensive 90-Day Review of DHS operations ordered by Mayor de Blasio that concluded in April 2016. The goal of the review was to ensure New York City's homeless services are delivered as efficiently and effectively as possible in order to prevent, reduce, and manage homelessness.

The structural reorganization is significant and is continuing to be implemented. As part of this reorganization DSS is reforming processes, work flows, policies and procedures at every level of the agency. Many of these policies and procedures under revision or already implemented relate directly to the issues discussed in the audit report.

DHS strongly disagrees with references in the report inferring that the agency does not have proper mechanisms in place to process advancements and recoupments.

DHS remains committed to ensuring proper issuance of advances and subsequent timely recoupments. There is and has always been a plan in place to track and recoup advance payments from providers.

The following are selected noteworthy processes implemented by the agency:

Recoupment Process

There is and has always been a plan in place to recoup all outstanding advances from providers; it is important to note that as of the day of this response, \$4.5M of the outstanding advance payments has been successfully recouped. DHS is actively working to retrieve the remaining balances.

Policy for Advances

Requests from providers for additional advances are evaluated on a case by case basis. When evaluating the need and the risk associated with granting additional advances, the agency takes into account the value and term of the current contract to ensure the viability of repayment. If it is determined that the need is valid, appropriate action is taken. DHS views these cases as legitimate exceptions to policy. A procedure for the approval and issuance of advances in excess of the current standard 25% is in place.

Additionally, it is important to note, that in order to issue an advance to a provider, two conditions must be met. The contract must be registered and the budget for that particular fiscal year must be approved. To ensure appropriate oversight and to comply with all applicable New York State Office of Temporary and Disability Assistance regulations, the agency reviews operating budgets and supporting documentation on an annual basis. Budgets are reviewed by both fiscal and program staff. This review can sometimes extend into the fiscal year. Thus, if a contract has been delayed for either registration or budget approval, the provider requires an immediate influx of funds as soon as the contract is registered and the budget is active. DHS advances at that point not only the 'start of year' advance, but funds to cover the provider's prorated expenses to that point.

To assist the vendors, the agency reserves the right to adjust recoupment schedules on a case by case basis by evaluating the provider's cash flow needs, as well as the value and term of the current contract.

Closeout Procedures

The audit of DHS's internal practices in issuing and recouping advances is being measured against a previous version of DHS's Human Services Providers Fiscal Manual. This manual was never intended to be standard operating procedures for internal staff and managers. The primary intention of the manual was to provide guidelines to vendors on our general practice of advancing and recouping funds against their contracts. The new DHS Fiscal Manual, released in July of 2017, provides both providers and DHS staff with clear directions related to the issuance of advances and recoupments. Prior to release of the revised Fiscal Manual, DHS recouped advances on a planned schedule and under the revised Fiscal Manual we will continue to do so. There are several variables that may delay collection of the outstanding balances, i.e. amendment and renewal registration. To say that collection of contract advances via a payment plan exposes the City to an increased risk of loss is an incorrect statement. The payment plan is a scheduled deduction. DHS believes that the new policy provides the vendor with additional cash flow early on.

Our mission is to serve New York City's most vulnerable population in the most compassionate, efficient and effective manner, while adhering to all applicable rules, regulations and laws by which we are bound. We would like to express our sincere appreciation for the efforts that your office is investing in this review, as it will assist us in achieving our goals.

We are confident that our responses demonstrate our commitment to improving our operations going forward. Should you have any questions, please contact Klara Shoumacker, Director of the DSS Bureau of Audit Coordination at 929-221-7063.

Sincerely,



Maria Ciniglio

Enclosures

**NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT & QUALITY ASSURANCE
CORRECTIVE ACTION PLAN**

Audit Name: NYCC Audit of Advance Payments Made by DHS to Adult Shelter Providers
Audit Number: FP17-099A

Date: 11/21/2017

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 1:</p> <p>Develop and implement a plan to recoup the 11.8 million in outstanding advance payments made for Fiscal Years 2015 and 2016.</p>	<p>DSS disagrees with the recommendation.</p> <p>As of this writing, \$4.5M of the outstanding advance payments has been successfully recouped which represents 38% of the total funds advanced. Of the \$7.3M in remaining advance balances, the 14 providers are finalizing the closeout and funds will be recouped. The recoupment letters have been sent to the providers and we are working with them to remit payment.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>
<p>Recommendation 2:</p> <p>Ensure that requests and approvals for advances in excess of the 25 percent allowed by the new Fiscal Manual are properly tracked and documented.</p>	<p>DSS disagrees with the recommendation.</p> <p>A procedure is already in place. The 25 percent is the guideline. Management reserves the right to advance greater than 25 percent and recoup with an alternative plan if necessary. HHS Accelerator tracks advances and recoupments against the current fiscal year budget and prevents the agency from issuing payments that exceed the authorized fiscal year budget.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>
<p>Recommendation 3:</p> <p>Document, track and reconcile all recoupments made via check received from providers and assignments until Accelerator is updated and able to reflect this information.</p>	<p>DSS disagrees with the recommendation.</p> <p>This recommendation is unnecessary. All recoupments made via check are documented and reconciled, previously in excel tracking sheets and now in HHS Accelerator.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>

**NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT & QUALITY ASSURANCE
CORRECTIVE ACTION PLAN**

Audit Name: NYCC Audit of Advance Payments Made by DHS to Adult Shelter Providers
Audit Number: FP17-099A

Date: 11/21/2017

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 4:</p> <p>Limit advances payments to amounts that can reasonably be recouped under the contract. In cases where advanced funds cannot be fully recouped on schedule, formally establish and alternative recoupment plan that is documented, implemented, and tracked to ensure that advances are fully recouped.</p>	<p>DSS disagrees with the recommendation.</p> <p>Advances are, in fact, currently limited to amounts that can be recouped under the contract. In cases where advance balances exist in any particular fiscal year during the contract term, providers will remit payment directly to the agency or DSS will recoup from the contract in a subsequent fiscal year. Modifications to the standard recoupment schedule are established in consultation with providers and tracked to ensure advances are fully recouped.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>
<p>Recommendation 5:</p> <p>Finalize the two contracts and fiscal year close-outs for the two fiscal years cited in the report.</p>	<p>DHS agrees with the recommendation.</p> <p>Agency follows its standard process. One of the two fiscal year closeouts have been finalized and advances recouped. The other closeout is in process and all funds will be recouped.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>
<p>Recommendation 6:</p> <p>Ensure that all future contracts and fiscal years close-outs are completed soon after contract termination or the submission of the final invoice for the fiscal year which occur a short time after September 1st.</p>	<p>DHS agrees with the recommendation.</p> <p>The Agency makes every effort to implement deadlines. Extensions are granted where appropriate. In an effort to enforce the timely submission of final invoices, the Agency has informed providers, in writing, that late submission of final invoices may lead to advance payments being withheld.</p>	<p>DHS Budget</p>	<p>None</p>	<p>On-going</p>

**NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT & QUALITY ASSURANCE
CORRECTIVE ACTION PLAN**

Audit Name: NYCC Audit of Advance Payments Made by DHS to Adult Shelter Providers
Audit Number: FP17-099A

Date: 11/21/2017

Auditor's Recommendations	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
<p>Recommendation 7:</p> <p>In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal manual that permit increased amounts of contracts advance, extended recoupment schedules, and the use of recoupment-payment plan to ensure that funds are not being put at risk.</p>	<p>DSS disagrees with the recommendation.</p> <p>The updated policy reflects the result of a city-wide review that included the other social services agencies and oversight agencies, of advance policies for non-profit social service providers. DSS evaluates all factors when issuing advances and extending recoupment schedules. This includes the value and term of the current contract to ensure risk is minimized.</p>	<p>DSS Finance</p>	<p>None</p>	<p>On-going</p>

This document provides Agency response to the Draft Audit Report on Advance Payments Made by the Department of Homeless Services to Adult Shelter Providers (FP17-099A) dated October 24th, 2017. The document lists specific sections of the report and is followed by agency responses to each section. We also ask that the final audit report acknowledge that as a result of the 90-day review of homeless services last year, the agency is undergoing a major reform initiative, including the integration of the Department of Homeless Services (DHS) and the Human Resources Administration (HRA). Among the reform efforts in the Finance area has been the issuance of a new Fiscal Manual, which addresses a number of the audit recommendations that are focused on the Fiscal Manual that was in place prior to the reforms.

This audit took place while DHS was in the midst of a significant reorganization, and had undertaken a significant examination and reform of many of the very policies and processes at issue in this audit. Specifically, we think it is important for any reader of the audit report to know that DHS has been in the midst of a significant reorganization as a result of the decision by the Mayor to integrate DHS within the Department of Social Services (DSS), which now includes DHS and HRA. Both agencies have Administrators who report to the Commissioner of the Department of Social Services. Many administrative functions for both agencies, including contracts and procurement, legal, and finance, have been consolidated and serve both agencies. This new structure was implemented following a comprehensive 90-Day Review of DHS operations ordered by Mayor de Blasio that concluded in April 2016. The goal of the review was to ensure New York City's homeless services are delivered as efficiently and effectively as possible in order to prevent, reduce and manage homelessness.

The structural reorganization is significant and is continuing to be implemented. As part of this reorganization DSS is reforming processes, work flows, policies and procedures at every level of the agency. Many of these policies and procedures under revision or already implemented relate directly to the issues discussed in the audit report.

Audit Findings and Conclusions (p. 1-2/17)

"DHS did not consistently follow its procedures for the issuance and recoupment of the payments it advanced to providers. As a result, as of September 14, 2017, or approximately three months into Fiscal Year 2018, DHS had failed to recoup \$11.8 million it had advanced to providers in two prior fiscal years, consisting of \$75,704 advanced for Fiscal Year 2015 and \$11.7 million advanced for Fiscal Year 2016."

➤ Agency Response

There is and has always been a plan in place to recoup all outstanding advances from providers; it is important to note that as of this writing, \$4.5 M of the outstanding advance payments have been successfully recouped. DHS is actively working to retrieve the remaining balances.

"In particular, our audit found:

- 50 instances in which advance payments to providers exceeded the amounts allowed by DHS's written policies and procedures;"

➤ **Agency Response**

Requests from providers for additional advances are evaluated on a case by case basis. When evaluating the need and the risk associated with granting additional advances, the agency takes into account the value and term of the current contract to ensure the viability of repayment. If it is determined that the need is valid, appropriate action is taken. We view these cases as legitimate exceptions to policy. A procedure for the approval and issuance of advances in excess of the current standard 25% is in place. Providers seeking an additional advance must submit their request, in writing, to the Assistant Commissioner for approval. The correspondence must include a detailed explanation of the additional need. As noted later in this report, as part of the ongoing homeless services reform effort, DSS has updated the Fiscal Manual to reflect this policy. Based on the data provided by the Comptroller's office on 11/03/17, this represents 17 providers and 38 contracts. The percentage advanced within the fiscal year budget ranges from 17-70% however the percentage of the value of the contract ranges from 2% to 25%.

- “62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year, contrary to its policies; some of those advances were disbursed as late as 10 months into the fiscal year, and two were made *after* the end of the fiscal year; and”

➤ **Agency Response**

Based on the list provided by the Comptroller's Office on 11/3/17, we found that the finding pertained to 14 providers and 29 contracts. It is important to note, that in order to issue an advance to a provider, two conditions must be met. The contract must be registered and the budget for that particular fiscal year must be approved. To ensure appropriate oversight and to comply with all applicable OTDA regulations, the agency reviews operating budgets and supporting documentation on an annual basis. Budgets are reviewed by both fiscal and program staff. This review can sometimes extend into the fiscal year. Thus, if a contract has been delayed for either registration or budget approval, the not-for-profit provider requires an immediate influx of funds as soon as the contract is registered and the budget is active. DHS advances at that point not only the 'start of year' advance, but funds to cover the provider's prorated expenses to that point. So in October it would not be unusual to advance two (2) months plus another three (3) for the July to September period. The three (3) additional months would generally be recouped against the provider's invoice for the first quarter.

- “45 instances in which DHS did not effectively track advance payments made to providers or did not adhere to its own schedule for recouping them.”

➤ **Agency Response**

HHS Accelerator does track advances against the authorized budget for that fiscal year. The agency reserves the right to adjust recoupment schedules on a case by case basis by evaluating the provider's cash flow needs, as well as the value and term of the current contract.

“In addition, the audit found:

- 3 instances in which DHS "recouped" advances and then immediately "reinstated" them, thereby, in effect, the agency rolled the outstanding balances forward into the next month, and in one instance, into the next fiscal year; and”

➤ **Agency Response**

DHS disagrees with this finding. These reinstatements were executed due to the fact that the outstanding advances were recouped prematurely.

- “2 instances in which DHS, as of September 2017, had not yet finalized contract close-outs and, as a result, had not fully recouped outstanding advances, for one contract from Fiscal Year 2015 and another from Fiscal Year 2016.”

➤ **Agency Response**

Closeout of the FY 15 contract cited in the report has been completed. The provider has remitted all funds due the Agency. The FY 16 closeout is currently in process and all funds will be recouped.

“Our audit revealed that DHS failed to consistently comply with its policies and procedures for the issuance, tracking, and recoupment of advance payments and thereby did not fully recoup all advance payments made to providers during the two fiscal years covered by the audit. Some of those uncollected advances remained outstanding as of September 2017, more than 14 months after the end of Fiscal Year 2016 (the most recent fiscal year covered by the audit), with no specific timetable for repayment.

In March 2017, while this audit was in progress, and again in July 2017, DHS revised its Fiscal Manual to: (1) increase the amount of its standard contract advance to 25 percent of the annual contract budget; (2) explicitly permit "exceptions," specifically, additional advances against the contract budget "should the three-months [25 percent] advance prove insufficient"; and (3) permit DHS to extend the recoupment schedule from one fiscal year to the next or, alternatively, to allow providers to "reimburse the agency directly through a payment plan" in cases where the provider's "final invoice fall[s] short of the amount to be recouped."...

➤ **Agency Response**

The audit of DHS's internal practices in issuing and recouping advances is being measured against a previous version of DHS's Human Services Providers Fiscal Manual. This manual was never intended to be standard operating procedures for internal staff and managers. The primary intention of the manual was to provide guidelines to vendors on our general practice of advancing and recouping funds against their contracts. The new DHS Fiscal Manual, released in July of 2017, provides both providers and DHS staff with clear directions related to the issuance of advances and recoupments. Prior to release of the revised Fiscal Manual, DHS recouped advances on a planned schedule and under the revised Fiscal Manual we will continue to do so. There are several variables that may delay collection of the outstanding balances, i.e. amendment and renewal registration. To say that collection of contract advances via a payment plan exposes the City to an increased risk of loss is an incorrect statement. The payment plan is a scheduled deduction. The new policy provides

the vendor with additional cash flow early on. We also disagree with the assessment that DHS appears to be permitting 'unsecured extension of credit'. The premise of the advance payment is that a provider can obtain funds to cover contract expenses at the beginning of a fiscal year, before billing DHS for services provided, and subsequently repay those advanced funds through set-offs from its billings during that same fiscal year. In rare cases where expenses in one fiscal year prove to be insufficient to recoup the total advance, providers can remit payment by check, which is now recordable in HHS Accelerator, or the agency may recoup in the following fiscal year.

Audit Recommendations (p. 3/17)

“To address the issues identified in this audit, we make the following nine recommendations, seven to DHS and two to the Mayor's Office.

DHS should:

- Develop and implement a plan to recoup the \$11.8 million in outstanding advance payments made for Fiscal Years 2015 and 2016.”

➤ **Agency Response**

DHS disagrees with this recommendation, as it suggests the agency is not actively pursuing recoupment. DHS has plans in place for recouping all of the remaining balances. We are actively working within the scope of those plans to recover any remaining advances. Based on the documentation received from the Comptroller's office on 11/03/17 this \$11.8M represents 14 providers and 22 contracts. As of this writing, \$4.5 M of the outstanding advance payments has been successfully recouped which represents 38% of the total funds advanced. Of the \$7.30M in remaining advance balances, eight (8) providers are finalizing the closeouts and \$1.5M will be recouped in that process. Recoupment letters have been sent to the remaining providers. As is consistent with our normal process, we are working with them to remit payment directly or to recoup funds from the subsequent fiscal year. It is important to note that we have approved FY18 budgets for all of these contracts, so there is little risk associated with the recoupment of these funds.

- “Ensure that requests and approvals for advances in excess of the 25 percent allowed by the new Fiscal Manual are properly tracked and documented.”

➤ **Agency Response**

A procedure for the approval and issuance of advances in excess of the standard 25% is fully in place. Providers must send a detailed explanation, in writing, of the additional need. In addition the request must be approved at the Assistant Commissioner level or higher before being processed.

- “Document, track, and reconcile all recoupments made via checks received from providers and assignments until Accelerator is updated and able to reflect this information.”

➤ **Agency Response**

This recommendation is unnecessary. All recoupments made via check are documented and reconciled, previously in excel tracking sheets and now in HHS Accelerator.

- “Limit advance payments to amounts that can reasonably be recouped under the contract. In cases where advanced funds cannot be fully recouped on schedule, formally establish an alternative recoupment plan that is documented, implemented, and tracked to ensure that advances are fully recouped.”

➤ **Agency Response**

DHS disagrees with this recommendation. As the Fiscal Manual states, the initial advance provides 25% of the annual budget. Advances cannot be issued for more than the modified annual budget. Budgets are established by the Program Unit and budget team via a process that determines expectations for spending. Additional requests are based upon need. If a provider underspends their budget, the balance will carry over to the next fiscal year. In cases where the advance cannot be recouped on schedule, Finance staff will implement an alternative plan. All advances are tracked until they are fully recouped.

- “Finalize the two contracts and fiscal year close-outs for the two fiscal years cited in the report.”

➤ **Agency Response**

Closeout of the FY 15 contract cited in the report has been completed. The provider has remitted all funds due the Agency. The FY 16 closeout is in process and all funds will be recouped.

- “Ensure that all future contracts and fiscal year close-outs are completed soon after contract termination or the submission of the final invoice for the fiscal year which should occur a short time after September 1st.”

➤ **Agency Response**

The Agency makes every effort to implement deadlines. Extensions are granted where appropriate. In an effort to enforce the timely submission of final invoices, the Agency has informed providers, in writing, that late submission of final invoices may lead to advance payments being withheld.

“In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.”

➤ **Agency Response**

DHS has always made every effort to ensure the City's funds are not being put at risk. As part of the overall reforms of homeless services, careful thought with regard to fiscal prudence was used in the revision of the Fiscal Manual.

“The Mayor's Office should:

- Conduct a comprehensive assessment of Accelerator functionality and system controls and determine whether it is feasible to:
 - Implement system edits that prevent advance payment requests made after the beginning of the fiscal year from being approved and processed in Accelerator without written justifications and executive level approval.
 - Implement system edits that would allow advance recoupments made via checks or assignments to appear as an offset to an advance and be reflected accordingly in the system instead of continuing to appear as outstanding.
- In light of the audit's findings, evaluate the policy changes reflected in the recently revised Fiscal Manual that permit increased amounts of contract advances, extended recoupment schedules, and the use of recoupment-payment plans to ensure that funds are not being put at risk.”

➤ **Agency Response**

Recommendations 7 and 8 are addressed to the Mayor's Office. We have been in contact with the Mayor's Office based on the draft report. The Mayor's Office indicated that with respect to recommendation eight, Accelerator functionality allows City agencies to implement policies that best suit Agency needs; this ensures that all advance requests are reviewed and approved by the appropriate Agency staff. Moreover, regarding recommendation nine, Accelerator implemented enhancements in July 2017 that allow City agencies to track check payments to the City against the contract as a marker against unrecouped funds. Further, changes to the Fiscal Manual reflect recent citywide changes to the advance and recoupment policy implemented through the Non-profit Resiliency Committee.

FINDINGS (p. 7-13/17)

“DHS did not consistently follow its procedures for the issuance and recoupment of the payments it advanced to providers. As a result, as of September 2017, DHS had failed to recoup \$11.8 million consisting of \$75,704 advanced for Fiscal Year 2015 and \$11.7 million advanced for Fiscal Year 2016.

In particular, our audit found:

- 50 instances in which advance payments to providers exceeded the amounts DHS's written policies and procedures allowed;”

➤ **Agency Response**

DHS disagrees with this finding. Based on the data provided by the Comptroller's office on 11/03/17 this represents 17 providers and 38 contracts. The percentage advanced within the fiscal year budget ranges from 17-70%, however the percentage of the value of the contract ranges from 2% to 25%. The Fiscal Manual was never intended to be standard operating procedures for internal staff and managers. The primary intention of the manual was to provide guidelines to vendors on our general practice of advancing and recouping

funds against their contracts. DHS management works in conjunction with providers to ensure they have sufficient cash flow to continue to provide shelter and services to our clientele. In any case, as part of the reforms of homeless services, the Fiscal Manual has been revised and a procedure for the approval and issuance of advances in excess of the standard 25% is fully in place.

- “62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year contrary to its policies; some of those advances were disbursed as late as 10 months into the fiscal year and two were made *after* the end of the fiscal year; and”

➤ **Agency Response**

Based on the list provided by the Comptroller’s Office on 11/3/17, we found that the finding pertained to 14 providers and 29 contracts. It is important to note, that in order to issue an advance to a provider, two conditions must be met. The contract must be registered and the budget for that particular fiscal year must be approved. To ensure appropriate oversight and to comply with all applicable State Office of Temporary and Disability Assistance regulations, the agency reviews operating budgets and supporting documentation on an annual basis. Budgets are reviewed by both fiscal and program staff. This review can sometimes extend into the fiscal year. Thus, if a contract has been delayed for either registration or budget approval, they require an immediate influx of funds as soon as the contract is registered and the budget is active. DHS advances at that point not only the ‘start of year’ advance, but funds to cover the provider’s prorated expenses to that point. So in October it would not be unusual to advance two (2) months plus another three (3) for the July to September period. The three (3) additional months would generally be recouped against the providers invoice for the first quarter.

- “45 instances in which DHS did not effectively track advance payments made to providers or did not adhere to its own schedule for recouping them.”

➤ **Agency Response**

DHS disagrees with this finding. HHS Accelerator tracks advances against the authorized budget for that fiscal year. The agency reserves the right to adjust recoupment schedules on a case by case basis evaluating the provider’s cash flow needs, as well as the value and term of the current contract.

“In addition, the audit found:

- 3 instances in which DHS "recouped" advances and then immediately "reinstated" them, thereby, in effect, the agency rolled the outstanding balances forward into the next month, and in one instance, into the next fiscal year; and”

➤ **Agency Response**

In each of these three instances, the recoupments were executed prematurely. Upon recognition of the errors, advances were immediately reissued.

- “2 instances in which DHS, as of September 2017, had not yet finalized contract close-outs and, as a result, had not fully recouped outstanding advances, for one contract

from Fiscal Year 2015 and another from Fiscal Year 2016.”

➤ **Agency Response**

Closeout of the FY 15 contract cited in the report has been completed. The provider has remitted all funds due the Agency. The FY 16 closeout is in process and advances will be fully recouped.

DHS Has Yet to Recoup Advance Payments Totaling \$11.8 Million (p. 7/17)

“As of September 2017, DHS had not yet recouped \$11.8 million in advance payments it made to 13 providers on 27 contracts for Fiscal Years 2015 and 2016. Specifically, DHS had not recouped \$75,704 of the \$55.4 million it advanced for Fiscal Year 2015, and \$11.7 million of the \$82.7 million it advanced for Fiscal Year 2016. ...”

“...Further, during the course of the audit, DHS did not properly document the need for the additional advances and/or the justification of delayed recoupments. Nor did it describe how it plans to eliminate or at least minimize their reoccurrence in the future. ...”

➤ **Agency Response**

DHS disagrees with this recommendation, as it suggests the agency is not actively pursuing recoupment. DHS has plans in place for recouping all of the remaining balances. We are actively working within the scope of those plans to recover any remaining advances. Based on the documentation received from the Comptroller's office on 11/03/17 this \$11.8M represents 14 providers and 22 contracts. As of this writing, \$4.5 M of the outstanding advance payments has been successfully recouped which represents 38% of the total funds advanced. Of the \$7.30M in remaining advance balances, eight (8) providers are finalizing the closeouts and \$1.5M funds will be recouped in that process. Recoupment letters have been sent to the remaining providers. As is consistent with our normal process, we are working with them to remit payment directly or to recoup funds from the subsequent fiscal year. It is important to note that we have approved FY18 budgets for all of these contracts, so there is little risk associated with the recoupment of these funds.

DHS Issued Advance Payments to Providers in Excess of the Amounts Allowed (p. 8/17)

“Our review found 50 instances in which DHS issued advance payments totaling \$38.6 million in excess of the maximum amounts allowed by its own guidelines. According to DHS's contracts, “[t]he amount of any advance ...shall be determined by the Department in accordance with its Fiscal Manual.” The Fiscal Manual, in turn, states that:

[p]roviders may request from DHS an advance in payment for services to be rendered under the contract. An advance will be given at the beginning of the contract term and each of the city's fiscal years (7/1 to 6/30). The maximum amount of the advance will be two (2) months or 2/12¹ of the annual contract amount.

We found that, notwithstanding these instructions, DHS repeatedly approved payments that exceeded the "maximum amount" specified in its Fiscal Manual.

We further found that although DHS has an extensive advance-payments-review process, that process does not include adequate tracking and documenting to ensure that advance payments do not exceed the maximum amounts allowed. Advance payment requests are initiated by providers and reviewed and approved by DHS in Accelerator, the City's central human services procurement and financial transaction computer system. However, Accelerator does not have

built-in system edits to prevent advance payment requests that exceed prescribed maximum amounts from being routinely approved and processed, absent an additional level of management review and approval. Based on our review of DHS's payments on 77 unique contracts for Fiscal Years 2015 and 2016, we found that DHS made advance payments that exceeded the maximum amounts allowed by a combined total amount of \$38.6 million as detailed in Table 2. ...”

➤ **Agency Response**

The Fiscal Manual was never intended to be standard operating procedures for internal staff and managers. The primary intention of the manual was to provide guidelines to vendors on our general practice of advancing and recouping funds against their contracts. DHS management works in conjunction with providers to ensure they have sufficient cash flow to continue to provide shelter and services to our vulnerable clients. In any case, as part of the reforms of homeless services, the Fiscal Manual has been revised and a procedure for the approval and issuance of advances in excess of the standard 25% is fully in place.

DHS Issued Advance Payments after the Period Established by Its Fiscal Manual (p. 10/17)

“DHS issued advance payments after the period authorized by its Fiscal Manual. According to the Fiscal Manual:

Providers may request from DHS an advance payment for services to be rendered under the contract. An advance will be given at the beginning of the contract term and each of the city's fiscal years (7/1 to 6/30).... A Contract Budget **must** be active before an advance payment can be requested and processed. [Emphasis in original.]

Notwithstanding the Fiscal Manual's statement that an advance payment may be given at the beginning of a contract term and each fiscal year within the contract term, DHS did not have procedures in place to ensure advance payments were issued within this specified timeframe. According to DHS, Accelerator does not have built-in system edits that prevent advance payment requests made after the beginning of the year from being approved and processed. Further, we found that DHS frequently approved such requests and that they were then processed through Accelerator. Specifically, we found 62 instances in which DHS advanced money to providers more than 30 days after the start of the fiscal year, as described below. ...”

➤ **Agency Response**

Upon review of the advance payments cited in this finding, we found that issuance of the payment after the start of the fiscal year was due to either late registration of the contract or budget reviews as discussed above. With regard to additional advances, provider requests are evaluated on a case by case basis by senior DSS fiscal staff. In addition to the provider's stated need, factors such as contract term and value are evaluated to determine the risk. If the need is found to be valid the issuance of the additional advance will be approved by senior management.

DHS Did Not Effectively Track Advance Payments (p. 11/17)

“DHS did not effectively track advance payments to ensure that they were fully recouped by the fiscal year-end close-out. The Fiscal Manual states that half of the amount advanced to the provider should be recouped in five equal installments (10 percent each month from the January through May invoices) and the remaining half (50 percent) should be recouped at the close-out of the provider's final June invoice. ...”

➤ **Agency Response**

DHS disagrees with this finding. HHS Accelerator tracks all advances against the authorized budget for the specific fiscal year preventing total payments from exceeding the authorized budget. In cases where the advance cannot be recouped on schedule, Finance staff will implement an alternative plan. All advances are tracked until they are fully recouped, however improvements to the monitoring and tracking of advance payments and recoument are being considered by the Agency.

DHS Did Not Adhere to Its Recoument Schedule (p. 12/17)

“As noted, DHS did not adhere to its schedule for recouping advance payments: 10 percent to be recouped against the January invoice; 10 percent to be recouped each month thereafter from February through May invoices; and 50 percent to be recouped at the close-out. ...”

➤ **Agency Response**

We disagree with this finding. The Agency adheres to the established recoument schedule, however there are instances when providers experience cash flow problems. In these instances we retain the right to exercise flexibility with regard to modification of a provider’s recoument schedule.

DHS Has Not Processed Close-outs for Two Contracts (p. 12/17)

“Our audit found that as of September 14, 2017, DHS had not closed-out two contracts, one from Fiscal Year 2015 and another from Fiscal Year 2016. These two contracts involved advance payments, of which \$856,928 have not been recouped. The DHS Fiscal Manual states that providers must:

“...submit their final budget modification no later than **September 1** (or the next business day(s) if 9/1 falls on a weekend If the final budget modification is not received by the deadline (or extended deadline if approved by DHS), the contract will be closed-out based on the last active budget in Accelerator. . . . After the final budget modification is approved, Providers must submit a final invoice within 3-5 business days. [Emphasis in original]. ...”

➤ **Agency Response**

DHS agrees with this finding. Closeout of the FY 15 contract cited in the report has been completed. The provider has remitted all funds due the Agency. The FY 16 closeout is in process and all funds will be recouped.

RECOMMENDATIONS (p. 14/17)

➤ **Agency Response**

Refer to agency response to Audit Recommendations (p. 3/17)