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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

August 17, 2004

Mr. Glenn S. Goord  
Commissioner  
New York State Department of Correctional Services  
Building #2, State Campus  
1220 Washington Avenue,  
Albany, NY 12226-2050

Ms. Verna Eggleston  
Administrator/Commissioner  
New York City Human Resources Administration  
180 Water Street, 25<sup>th</sup> Floor  
New York, NY 10038

Re: Report 2004-F-12

Dear Mr. Goord and Ms. Eggleston:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law, we have followed up on the actions taken by officials of the New York City Human Resources Administration (HRA) and the New York State Department of Correctional Services (DOCS), to implement the recommendations contained in our audit report, *Administration of Osborne Association Contract - Billings for Job Placement Services* (Report 2001-R-7).

**Background, Scope and Objectives**

The Osborne Association (Osborne) specializes in providing job preparation and job development programs for New York City area residents convicted of a felony. From 1995 to August 2001, Osborne's Vocational Training and Job Placement Services program has provided direct job placement services to work release participants in three facilities operated by DOCS. Our initial audit focused on Contract C160673, which amounted to \$1,470,000 and covered the period January 1, 2000 through August 31, 2001. The Osborne contract with DOCS expired on August 31, 2001. Effective September 1, 2001, DOCS has contracted with Wildcat Services Corporation for the provision of job placement services.

In April 2000, HRA contracted with Goodwill Industries of Greater New York and New Jersey, Inc. (Goodwill), and Career & Educational Consultants, Inc. (CEC), both of which subcontracted with Osborne to provide direct job placement services for "economically disadvantaged adults facing serious barriers to employment who are in need of such training to

obtain productive employment.” The Goodwill contract, in the amount of \$49,397,715, covered the period December 1, 1999 through November 30, 2002; and the CEC contract, amounting to \$1,355,000, covered the period October 1, 1999 through September 30, 2002. The Goodwill contract was renewed for \$11,028,701, covering the period December 1, 2002 through November 30, 2005 and the CEC contract was renewed for \$7,960,250, covering the period October 1, 2002 through September 30, 2005.

In June 2001, the Office of the State Comptroller received an anonymous complaint letter about Osborne’s billing practices. The complaint alleged that: “The New York State Department of Correctional Services (DOCS), its staff and its inmates (were) used to defraud the Human Resources Administration (HRA) out of hundreds of thousands of dollars.”

Our initial audit report, which was issued on January 23, 2003, examined selected aspects of contract billings submitted by Osborne to both DOCS and HRA for the period January 1, 2000 through August 31, 2001. Our report identified weaknesses in controls relating to billing verification at HRA that allowed Osborne to submit billings to HRA in the amount of \$302,747 for services already paid for by DOCS. In addition, control weaknesses at DOCS allowed Osborne to include erroneous charges amounting to \$27,061 and charges amounting to \$35,843 for ineligible individuals in billings submitted to DOCS. The objective of our follow-up, which was conducted in accordance with Generally Accepted Government Auditing Standards, was to assess the extent of implementation, as of June 17, 2004, of the six recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

We found that officials at both HRA and DOCS have taken appropriate actions to address the problems we identified. HRA and DOCS officials have implemented the six prior audit recommendations, and have also taken additional steps beyond our recommendations to prevent future duplicate billings.

### **Follow-up Observations**

#### **Recommendation 1**

*HRA should:*

*Recover payments of \$39,895 from CEC, \$34,328 from Goodwill, and \$132,825 from Osborne for services already paid for by DOCS.*

Status - Implemented

Agency Action - HRA fully recovered the recommended disallowance totaling \$207,048 from CEC and Goodwill directly. HRA recovered \$106,000 in 13 installments from CEC during the period October 28, 2003 to January 06, 2004. HRA also recovered \$101,048 in 15 installments from Goodwill during the period October 17, 2003 to January 20, 2004. Furthermore, HRA recovered an additional \$16,500 from CEC and \$15,868 from Goodwill for related retention payments made after the audit report was issued.

**Recommendation 2**

*HRA should:*

*Withhold payment for the \$85,349 in outstanding unpaid billings.*

Status - Implemented

Agency Action - On October 9, 2003, HRA officials sent letters to the Chief Executive Officer of Goodwill and to the President of CEC, advising them that any outstanding unpaid billings indicated in OSC's recommendation will not be reimbursed.

**Recommendation 3**

*DOCS should:*

*Recover \$35,843 from Osborne for services rendered to ineligible clients.*

Status - Implemented

Agency Action - DOCS fully recovered these funds from Osborne by deducting the \$35,843 from a subsequent billing on January 10, 2003.

**Recommendation 4**

*DOCS should:*

*Recover \$27,061 from Osborne for erroneous charges to the DOCS contract.*

Status - Implemented

Agency Action - DOCS fully recovered these funds from Osborne by deducting the \$27,061 from a subsequent billing on January 10, 2003. In addition to recovering the funds as recommended, DOCS has put in place a performance-based contract to avoid such billing errors that occurred in the prior cost-based contracts.

**Recommendation 5**

*DOCS should:*

*Verify the eligibility of all individuals billed for placement service prior to paying the contractor.*

Status - Implemented

Agency Action - On September 1, 2002, DOCS established an electronic listing of individuals receiving contract services. This electronic listing, a copy of which was provided to us during our follow up, is used to verify eligibility of all individuals billed for job placement services prior to paying the contractor.

### **Recommendation 6**

*HRA should:*

*Strengthen current internal controls and improve monitoring by:*

- *coordinating services/efforts with DOCS and the State Department of Labor to identify potential duplicate billings;*
- *verifying that clients were actually provided with services and actually working for employers; and*
- *including non-referral clients in the sample population used for monitoring contract compliance.*

Status - Implemented

Agency Action - HRA is coordinating with the Department of Labor (DOL) and the Office of Temporary and Disability Assistance to ensure that contractors that are funded by the State do not provide duplicate services or submit duplicate billings for HRA's clients. For example, HRA has sent electronic files to DOL noting placements and retentions paid by HRA to its employment contractors for the period January 2002 to December 2003, in an effort to identify duplicate billings. A copy of a file was provided to us during our follow up.

In addition, HRA is utilizing New York City's Financial Management System to make sure that contractors do not duplicate services or billings for the same clients among New York City agencies. Furthermore, HRA has included a clause in all contract renewals requiring contractors to take steps to prevent duplicate billings.

HRA has strengthened current internal controls and has improved monitoring by verifying placements and retentions of all referral clients. HRA requires that contractors submit either pay stubs of referred clients, which show that they are actually working for those employers as indicated, or other documentation that will support an achievement of a milestone.

Effective June 1, 2004, HRA no longer provides services for non-referral clients. All clients serviced by contractors must be referred by HRA.

Major contributors to this report were Jeneba Bangura and Brian Lotz.

We thank the management and staff of both HRA and DOCS for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

William P. Challice  
Audit Director

cc: Hope Henderson, Director, Bureau of Audit Coordination, HRA  
Leo Bisceglia, Director of Internal Controls, DOCS  
Robert Barnes, Division of the Budget