



New York City Human Resources Administration

Personal and Miscellaneous Services Contracts

Report 2010-N-3



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

October 28, 2010

Robert Doar
Commissioner
New York City Human Resources Administration
180 Water Street
New York, NY 10038

Dear Commissioner Doar:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the New York City Human Resources Administration: *Contracts for Personal and Miscellaneous Services*. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article III Section 33, of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

One objective of our audit was to determine whether the New York City Human Resources Administration (HRA) justified its need to contract out for personal and miscellaneous services. Another objective was to determine whether HRA officials periodically reassessed their personal and miscellaneous service contracts to identify what work could be deferred, eliminated, or reduced in an effort to deal with the current fiscal crisis.

Audit Results - Summary

The City Charter, Procurement Policy Board Rules, and City Comptroller Directives establish certain expectations for City agencies regarding decisions to contract out for personal and miscellaneous service contracts (Service Contracts). These guidelines have added significance given the City's fiscal difficulties. In his January 2009 State of the City Address, the Mayor outlined the need to find new efficiencies throughout City government while protecting core City services. For the period July 1, 2008 through November 30, 2009, HRA had 386 personal and miscellaneous service contracts in place with a total value of \$423 million; 223 of these (about 58 percent) were awarded for more than \$100,000. Many were multi-year contracts - some providing services over several years.

We reviewed documents related to a sample of 10 of these Service Contracts, valued at approximately \$26 million to determine whether the decision to contract for service was in writing and whether there was documentation supporting that decision. We found that HRA had a standardized form for each of the contracts that we reviewed that either identified the reason the services were contracted out, or provided a justification for the need for the services, without providing a reason as to why the work could not be performed in-house. HRA officials could not provide documentation, such as written analysis, to support these reasons. The absence of documentation showing that alternatives were considered, cost benefits were analyzed, and informed decisions were made leaves taxpayers without adequate assurance that all relevant factors were considered in making the decision to contract out. We also determined that HRA had not periodically assessed its Service Contracts to identify what could be deferred, eliminated, or reduced.

In light of the current fiscal crisis, HRA officials need to ensure that expenditures are necessary and cost-effective. To achieve this goal, we believe HRA should perform a comprehensive review of each Service Contract to determine what can be delayed, suspended, postponed or performed in-house. In the absence of such a review, HRA may be missing opportunities to

further reduce costs and save funds. We note that if HRA achieved an 8-percent savings on the unspent amounts remaining on its existing Service Contracts, it could realize almost \$14 million in cost savings.

Our report contains two recommendations for improving HRA's efforts to attain savings through justification and reassessment of Service Contracts.

In response to our draft report, HRA officials disagreed with our conclusions and recommendations. They assert that HRA is in full compliance with New York City requirements and guidelines.

Auditor's Comments: Current fiscal challenges mean that City agencies like HRA must do more than simply meet minimum requirements. Our recommendations address additional steps that HRA should be taking to provide taxpayers with assurance that all expenditures are necessary and cost effective.

This report, dated October 28, 2010, is available on our website at <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
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Introduction

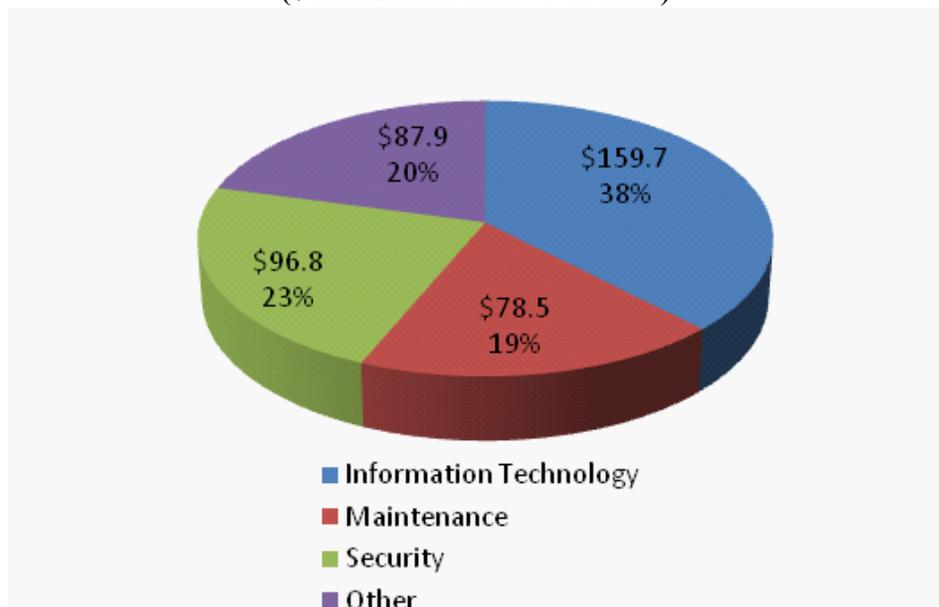
Background

The New York City Human Resources Administration (HRA) was created to better coordinate and integrate New York City's human services programs. HRA provides temporary help to individuals and families with social service and economic needs to assist them in reaching self-sufficiency. It serves more than 3 million New Yorkers through services that include: temporary cash assistance, public health insurance, food stamps, home care for seniors and the disabled, child care, adult protective services, domestic violence, and child support enforcement. For the fiscal year ended June 30, 2009, HRA had 14,093 full-time equivalent employees and total expenditures of \$8.3 billion, including \$7.6 billion for goods and services, \$7.3 billion of which was for Medicaid and Public Assistance.

To help achieve its mission, HRA enters into personal and miscellaneous service contracts (Service Contracts). According to a report of registered contracts provided to us by the New York City Comptroller's Office, HRA had 386 Service Contracts that were in effect during the period of July 1, 2008 and November 30, 2009. The total award value of these contracts was about \$423 million. About 58 percent (223) of these contracts are valued at more than \$100,000, and many were multi-year contracts - some providing services over several years.

The 386 Service Contracts are categorized in the following chart:

Contracts Awarded
(**\$ in millions and % of total**)



The following guidelines set forth expectations for City contracts:

- Section 312 of the City Charter requires that a cost-benefit analysis be prepared before a City agency enters into any contracts for technical, consultant or personal services valued at more than \$100,000 when such contract would result in the displacement of a City employee.
- Section 2-01 of the Procurement Policy Board Rules (PPB Rules) requires that the decision to procure technical, consultant and personal services that cost more than \$100,000 be in writing. PPB Rules further require agencies to consider several factors in making that decision, such as cost-effectiveness, special expertise and the duration of the needed service.
- New York City Comptroller Directive 24 states that agencies should retain documentation used for purchasing decisions, such as material from vendor presentations, agency discussions and memoranda, and any other paper and/or electronic records supporting the purchase decision.

These guidelines have added significance given the City's fiscal difficulties. In the Mayor's January 2009 State of the City Address, the Mayor outlined the need to find new efficiencies throughout City government while protecting core City services. Further, in November 2009, the City's Office of Management and Budget (OMB) issued a memo to all agency heads calling for targeted savings of 8 percent of expenditures for most agencies.

Audit Scope and Methodology

One objective of our audit was to determine whether HRA justified its need to contract out for personal and miscellaneous services (Service Contracts). Another objective was to determine whether HRA periodically reassessed Service Contracts to identify what work could be deferred, eliminated, or reduced in an effort to deal with the City's fiscal difficulties. For the purposes of our audit, Service Contracts are those in which the majority of costs associated with the contracts are for services and labor. We did not include contracts for commodities, capital construction, or for the delivery of core program services. Our audit period was July 1, 2008 through June 16, 2010.

To accomplish our audit objectives, we reviewed relevant City guidelines, interviewed appropriate HRA and City personnel, and examined contracts and other supporting documentation provided by HRA. We selected a judgmental sample of 10 Service Contracts totaling about \$26 million, each awarded for more than \$100,000, from the 223 contracts active during our audit period.

We conducted our 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.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. Agency officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They further affirm either that the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack assurance from HRA officials that all relevant information was provided to us during the audit. -

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III, Section 33 of the General Municipal Law.

Reporting Requirements

We provided a draft copy of this report to HRA officials for their review and comment. HRA officials generally disagreed with our conclusions and recommendations. A copy of their response is attached to this report. HRA also included with their response, copies of certain correspondence, City directives and standardized contract review forms. These have not been appended to the report due to their volume, but are available for review by contacting the State Comptroller's Office. We have considered this information and HRA comments in preparing this final report.

Within 90 days of the final release of this report, we request that the Commissioner of the New York City Human Resources Administration report to the State Comptroller advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to the Report

Major contributors to this report include Frank Patone, Michael Solomon, Santo Rendon, Keith Dickter, Kamal Elsayed, and Raymond Louie.

Audit Findings and Recommendations

Justification of Service Contracts

We selected a sample of 10 Service Contracts and reviewed available documentation to determine whether the decision to contract for services was in writing and whether there was documentation supporting that decision. HRA utilizes standardized forms for contracts above \$100,000 that identify the reasons for contracting out the service. One form uses a check-off box to select among various options, such as cost-effectiveness, special expertise, or lack of personnel. The second form describes the justification for the services being contracted for. While we found these forms for all 10 of the contracts selected, HRA could not provide us with any written documentation or analyses that would support their determinations that the services were needed, and that such services needed to be procured from an outside source.

We acknowledge that there are times when outside service contracts should be used. However, given the substantial amounts of money involved, it is good business practice that officials involved in these decisions obtain and review documentation supporting the rationale for contracting out services. The absence of documentation showing that alternatives were considered and cost benefits were analyzed leaves taxpayers without adequate assurance that all relevant factors were considered in making the decision to contract out work - and that an economical and effective choice was selected. Furthermore, maintaining written support for these decisions will improve HRA's transparency.

Reassessment of Personal and Miscellaneous Service Contracts

In light of the current fiscal crisis, HRA officials need to ensure that their agency's expenditures are necessary and cost-effective. To achieve that goal, we believe HRA should perform a comprehensive review of each Service Contract to determine what can be delayed, suspended, postponed or performed in-house. We believe a comprehensive review of each Service Contract may reveal opportunities for savings, especially in light of OMB's call to reduce expenditures by 8 percent. As of November 30, 2009, \$177.2 million of the Service Contracts remained open during our scope period. If HRA could achieve an 8 percent reduction on the remaining balances of these contracts, \$14 million in cost savings could be achieved.

- Recommendations**
1. Communicate to appropriate staff the need to develop and retain written analyses to justify the need for contracted services.

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2. Instruct managers to reassess all Service Contracts periodically, identifying opportunities to delay, suspend, postpone or bring them in-house, and to documents these determinations.

Agency Comments



**Human Resources
Administration**

Department of
Social Services

Office of
Audit Services

W-1H
Rev. 03/10

September 15, 2010

Robert Doer
Commissioner

Patricia M. Smith
First Deputy
Commissioner

Jane Corbett
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Frank Patone, CPA
Audit Director
State of New York
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10038

**Re: New York State Draft Audit
Report 2010-N-3 NYC HRA
Personal and Miscellaneous
Services Contracts**

Dear Mr. Patone:

This letter is in response to the above referenced draft audit report. In the report you stated that you reviewed documents related to ten service contracts, valued at approximately \$26 million, to determine whether the decision to contract for service was in writing and whether there was documentation supporting that decision. You stated that HRA had a standardized form for each of the contracts that you reviewed that either identified the reasons for which the services were contracted out, or provided a justification for the need for the services, without providing a reason as to why the work could not be performed "in house". You concluded by stating that HRA officials could not provide documentation, such as written analyses, to support these reasons. You indicated that there was an absence of documentation showing that alternatives were considered, cost benefits were analyzed, and informed decisions were made. You concluded that taxpayers, therefore, were left without adequate assurance that all relevant factors were considered in making the decisions to contract out. Finally, you recommended that HRA periodically assess its services contracts to identify what could be delayed, suspended, postponed or brought in-house.

Based on your report and our confidence in HRA's practices and procedures, we respectfully disagree with your findings and recommendations. HRA meets or exceeds all requirements under the New York City Charter and the New York City Procurement

Policy Board (PPB) rules in our procurement actions. In the City of New York, there are multiple oversight entities that review and approve all contract actions. The Mayor's Office of Contracts (MOCS) oversees and reviews procurement activities (please see the attached letter from Marla G. Simpson, Director of MOCS, re your similar audit of the Department of Youth and Community Development); the Office of Management and Budget (OMB) reviews the budget and funding for contracts; the New York City Law Department (Law Department) reviews our contracts as to form and legal authority; and, as a final step, the New York City Comptroller's Office (CO) reviews the integrity of the entire procurement process. In addition to the above-mentioned oversight entities, HRA has an internal Contract Review Board (CRB) that reviews all proposed contracts valued at \$100,000 and above. Before a contract is submitted to the CRB, the program area provides the reasons for contracting out the service. The CRB then reviews the submission as to content and to assure that all necessary procedures have been followed. It is only after this review that a recommendation is sent to the Commissioner for final authority to proceed. These rigorous processes ensure that the regulations of the City Charter, PPB, MOCS, OMB, the Law Department and the CO are followed, and that waste is avoided.

*
Comment

With regard to the recommendation that HRA periodically assess its contracts to identify what could be delayed, suspended, postponed or brought in-house, this is an ongoing occurrence. It is part of the analysis for any new contract initiative and is considered again when the contract is up for renewal. Contracts are also reassessed and reduced, where possible, whenever we are reviewing budget restrictions or when changes in law or regulation require us to alter a course of action.

*
Comment

In conclusion, it is clear that HRA fully complies with all the above-named oversight requirements when entering into contracts. Our internal procedures make the process even more rigorous. Therefore, we conclude that the objectives of your audit are met by HRA.

If you need to discuss this matter further please do not hesitate to contact me at 212-331-5500, or Hope Henderson, Director of the Bureau of Audit Coordination, at 212-331-4660.

Sincerely,



Jane Corbett

Attachment

c: Commissioner R. Doar
P. M. Smith
R. E. Esnard
H. Henderson

* See State Comptroller's Comment, page 17.

State Comptroller's Comment

HRA officials explain the checks and balances that New York City and HRA have in place over their contract procurement activities. We considered these factors when performing our audit. However, beyond the standard forms and checklists that comprise the minimum requirements of these procedures, no additional documentation or analysis was provided to support HRA's contract assessment and decision processes. We believe such documentation and analysis is necessary to ensure that alternatives have been appropriately considered.