

New York City Department of Homeless Services
Audit Services Directive Number 1
Audit Protocols For Human Services Contracts

CONTRACT REVIEW PROCEDURES

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The Auditors shall review contract expenditures and revenue in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, the Department of Homeless Services Audit Directive 1, the City of New York Comptroller's Internal Control and Accountability Directive 5 and specific contractual requirements. Letter reports with schedules are required.

The objectives of the audit were to determine whether:

1. Service provider's reports on costs and service levels are materially accurate;
2. Claims for reimbursements are allowable, reflect the amounts recorded in the books and records of the organization, and are in accordance with the contract and the annual budget;
3. Service provider's internal controls are functioning effectively and accounting systems are maintained for revenues, expenditures, assets, liabilities and any appropriate fund balances (fund balances are applicable to city-owned Single Room Occupancy's for Building Reserves and Operating fund and to Rental Assistance Program's for Rent Subsidies and Start-up/Client Fees/Move-in costs);
4. Service provider has complied with the relevant laws and regulations affecting the program, and
5. Service provider has complied with specific contractual requirements and limitations.

The Review Procedures for each annual budget period must include the following:

Examination of financial records relating to each contractor's reported operational expenditures/revenues as reflected on the required monthly expenditures reports. Examination of financial records shall be cumulative. Typically, there will be twelve monthly reports for each budget year. Specific emphasis and evaluation should be placed on the basis and consistency of the accounting system and methods used, substantiation of costs incurred, the basis of allocation of any direct or indirect costs (salaries, OTPS, overhead), and the verification that the required private share and third party expenditures were reported and are reflected on the contractor's financial records. Total third party billings and receipts must be determined and compared to actual private share/third party expenditures.

All auditing field work shall be *performed at the offices of the service provider/sponsor organization* by qualified staff of the CPA audit firm. The resulting audit reports shall be reviewed by a partner of the firm before submission to DHS, as affirmed in a letter transmitting the reports to DHS. A section in each audit report shall reflect all review procedures and indicate all relevant findings and recommendations.

Note: Location of program and client records may differ from administrative and fiscal records.

TESTS TO BE PERFORMED

I. UNIVERSAL TESTS (all programs)

The CPA firm shall use statistical methods to gather sufficient evidence to achieve the audit objectives. *The degree of testing shall support a high-assumed level of control risk.* A minimum of ten percent (10%) of the total dollar value of fiscal transactions shall be

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tested, notwithstanding testing performed in the evaluation of the audited organization's internal control structure.

For testing of programmatic or non-financial areas, a minimum of one per cent (1%) of the total population but not less than the sample size of five shall be tested. For example, to verify that a case record for each resident is maintained in a facility that had 50 residents during the audit period, the auditor shall test at least 5 of the case records.

Universal tests for each contractor's annual budget period shall be undertaken in the following areas:

1. Salaries

The payroll review procedures shall include review and verification of consistency with the annual budget, rate of pay, qualifications, time and leave policies and records, computation of payrolls (including accruals and overtime), taxes, canceled payroll checks and related payments. In addition, a payroll distribution shall be performed at each contract or program location during the CFY audit. The required audit reports shall reflect the details of the payroll distributions and/or alternative procedures used. Alternative procedures shall be used to confirm electronic payroll deposits made in lieu of payroll checks.

2. Fringe Benefits

Review procedures shall determine and document fringe benefit expenses (by classification) charged to the contract with emphasis on specific program policies. If expenses for fringe benefits are charged to the contract based on an organizational or agency-wide rate, the auditor shall review and document the basis for the rate being charged.

3. OTPS

Review procedures shall include sufficient audit tests to verify that the charges are properly documented, classified, necessary and reasonable and allowable in accordance with the funding grant or contract. All accrued expenditures reported on the final expenditure reports for each budget year (if any), including supplemental claims, shall be reviewed to determine the status of each invoice and related payment amounts. All OTPS expenditures relating to equipment purchases/rentals, renovations/repairs and professional costs (if applicable) shall be reviewed in greater detail. An inventory of all equipment purchased (if any) by the contractor through the conclusion of the budget year shall be performed. An inspection of physical inventory on a sample basis for each budget year audited shall be made. Schedules for equipment purchases/rentals and professional services shall be included in the required audit reports.

4. Compliance with Contractual Requirements

Review procedures shall include sufficient examination to assure compliance with contractual requirements specifically regarding financial and other required reports (including requirements for Private Share and/or Third Party reporting of expenditures), revenue amounts billed and received, budgetary compliance and limitations, insurance and bonding requirements and quantified program objectives. The auditors shall determine what internal controls and other procedures were in place to monitor and review the activities/services required under the terms of each contract. Where liability

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insurance, specific licenses or permits are required by contract, their existence shall be verified.

A section in each audit report shall reflect all review procedures and indicate all relevant findings and recommendations.

5. Purchasing

Verify that five vendors are solicited at random from the small purchases bidder list for procurements in value over \$5,000 through the small purchases limit of \$100,000. Where the list consists of fewer than five vendors, all vendors shall be solicited as specified in the Procurement Policy Board Rules.

6. Funding

Report all sources of fund raising income received by the service provider only as it pertains to the contracted homeless services program. The following shall be listed as income:

- a. Any advances given to the contractor by DHS *and the applicable earned interest*:
- b. Monthly reimbursements given to the contractor for services rendered
- c. Any loans secured by the contractor for the program's use
- d. Any grants from private or public sources that were given to the contractor for the program's use
- e. Any fund-raising income that was received as a result of program advertising pertaining to the program.

7. Additional Reporting Requirements for New Programs/Facilities

- a. A separate report, for start-up costs, if any, and operating expenditures is required for new contracts;
- b. Verify that separate accounting is maintained for each funding source.

8. Review Procedures of Audit Reports

Review and/or follow-up shall be undertaken on the most recent audit report(s) prepared by the organization's independent auditors, if applicable. Appropriate comments on the above review procedures shall be reflected in each report.

II. TESTS FOR SPECIFIC PROGRAM CATEGORIES

The following detailed audit tests shall be performed for each program by specific category. Where appropriate, they shall be performed on a test/sample basis. These tests reflect the verification of DHS contractual and other requirements:

- A. Tests for Adult and Social Services Programs (Including Single Adult Residences, Outreach, Drop-in Centers, Substance Abuse, Employment and Homeward-Bound Programs) (Lots 1-5)**

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- **Tests for Single Adult Residences**

Single Adult Residences provide shelter, food, clothing, personal hygiene supplies, recreation, social work, counseling, and information and therapeutic services for homeless single adults on a seven-day-a-week, twenty-four-hour-a-day basis.

DHS contracts with not-for-profit organizations to provide a continuum of care with a variety of adult residence program models, including 1) general population adult residences, 2) program shelters specifically geared to the needs of special populations, e.g., persons with a history of substance abuse, mental illness, or those who are employed or ready for employment, and 3) reception centers which provide shelter to frail, mentally ill and vulnerable homeless people.

1. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that programs daily census of clients is accurately reported to DHS.
3. Verify that a case record exists for each client and includes: intake interview form, history sheets/psychosocial summary, referral forms (as appropriate), records of client contacts, and social service plans/contracts.

- **Tests for Outreach Programs**

Outreach programs assist a diverse population of homeless adults living in public spaces (streets, parks, subways, etc.) and offer them access to emergency crisis services, assessment, counseling, case management, access to benefits, transportation and permanency options / housing.

1. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that the program is maintaining adequate records. This includes the verification of the existence of client contact sheets, index cards and case records. Verify that when a case record for a client is maintained it includes: client name and ID number, intake interview form, history sheet(s), appropriate agency referral forms, records of client contacts, and social service plans.

- **Tests for Drop-in Center Programs**

Drop-in center programs provide, on a seven-day-a-week, twenty-four-hour-a-day basis, food, clothing, showers, medical and psychiatric services, assessment, counseling, case management, benefits advocacy, access to substance abuse treatment programs, access to beds in faith bed programs, interim housing and transitional and permanent housing placements for homeless adults utilizing these programs.

1. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.

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2. Verify that the program is maintaining adequate records. Verify that records exist for all clients whose signatures appear on the daily sign in log. This includes a contact sheet, index card or case record. Verify that a case record includes: intake interview form, history sheets/psychosocial summary, referrals forms, records of client contacts, social service plans/contracts.

- **Tests for Substance Abuse Program**

The substance abuse program provides on-site substance abuse screening, assessment and treatment, as well as motivational and substance abuse education services to homeless adults.

1. Verify that monthly expenditures are supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that the contractors accurately report to DHS on a monthly basis the number of clients who are enrolled in the program, in recruitment activity, who have successfully completed the program, have been placed in long term treatment and in independent living situations.
3. Verify that a case record for each client is maintained and includes: client name and ID number, intake interview form, referral forms, history sheets/psychosocial summary, records of client contacts, and treatment needs and social service plans.

- **Test for Employment Programs**

Employment programs provide on-site recruitment, assessment and case management, as well as short-term employability competency training, job development placement and aftercare services to homeless adults.

1. Verify that monthly expenditures are supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that the contractors report to DHS on a monthly basis, the number of clients recruited, enrolled, successfully completed the program, and placed in full time jobs.
3. Verify that a case record for each client is maintained and includes: client name and ID number, intake interview form, referral forms, history sheets/psychosocial summary, records of client contacts and progress, and employment and social service plans.

The following social services program is applicable to both single adults and families with children:

- **Tests for the Project Reconnect Program**

The Project Reconnect Program provides transportation assistance to adult and family shelter residents who wish to return to their home communities outside the City of New York. The program also provides counseling, linkages to services in the client's home community, and follow-up services to ensure that the individual or family does not return to the shelter system.

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1. Verify that monthly expenditures are supported by original documentation, in accordance with approved budget lines, and submitted to DHS in a timely manner.
2. Verify that monthly Activity-Evaluation Reports are accurately computed, maintained and submitted to DHS in a timely manner.
3. Verify that a case record for each client is maintained and includes: client name and ID number, intake interview forms, location of home-base community, mode of transportation utilized in the return to home-base community, and social services linkages made, ACS verification.

B. Tests for Family Programs (including Reimbursement Agreements) (Lots 6-10)

Family Programs are programs that provide temporary or transitional housing and social services to homeless families in need of emergency housing.

1. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that the reports on the number of "care days" for the families are accurately computed and maintained.
3. Verify that a case record for each resident is maintained and includes: client name, family composition and room number, intake interview form, social service plans, school registration of school-age children, records of client contacts, history sheet(s), and appropriate agency referral forms (e.g. housing referrals).

C. Tests for Single Room Occupancy Housing Programs (Lots 11-15)

The Single Room Occupancy (SRO) programs provide permanent housing and support services to permit residents to live as independently as possible.

1. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
2. Verify that names of tenants are added and deleted properly from the monthly shelter placement report when the tenant moves into or out of the SRO to determine whether the level(s) of tenant occupancy were in compliance with contractual level(s).
3. Verify that a case record for each resident is maintained and includes: tenant's name, room number and move-in date; intake interview form and/or housing application form for tenants other than original building tenants and/or tenants residing in the building two (2) years or longer, social service file, records of client contacts documenting the required frequency for updating social service plans.
4. The following additional tests are applicable to the six (6) contracted city-owned single room occupancy housing programs (1381 East New York Avenue SRO, East 119th Street

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Veterans Residence, Commonwealth Veterans Residence, Mount Eden, Webster and VOA-East 12 Street SRO's).

- a. Verify the amount of rents collected and that rents are charged according to a schedule based on the income the tenant receives from various entitlement sources.
- b. Verify that rental income is used to cover the operation and maintenance of the facility and that the service provider has maintained proper and sufficient evidence, vouchers, bills and receipts showing the propriety and necessity of any and all expenditures.
- c. Verify that the building reserve fund is maintained including monthly deposits, interest income, and DHS' authorization for withdrawals.
- d. Verify the current lease agreements.

D. Tests for Medical Services Programs (Lot 16)

Medical services programs provide onsite medical screenings and assessments, examination and testing, monitoring and episodic treatment, and referrals, as appropriate for such services at the Emergency Assistance Unit and the family reception centers.

1. Verify that monthly expenditures are supported by original documentation, are in accordance with approved budget lines; are submitted to DHS as specified in the contract; and approved staffing patterns are monitored according to the contract.
2. Verify that monthly program reports are supported by original documentation, are in accordance with the approved contract, and are submitted to DHS as specified in the contract.
3. Verify that the contractor reports to DHS on a monthly basis, the receipt of all Medicaid revenue attributable to the service provided. Determine if the reports are in a format that enables DHS to track the services provided to Medicaid eligible clients (Family providers only).
4. Verify that the expenditures submitted to DHS for reimbursement do not include costs for clients who are Medicaid eligible for that service (Family providers only).
5. Verify on a test basis that the contractors maintain medical records for each client examined on site at the shelter or at an off-site facility. Determine if the medical records contain the following basic information, if applicable: medical history, "Triage Health Screen Form" only for medical records at Emergency Assistance Unit, list of any referrals and type of services provided, medical reports and follow-up recommendations from other medical facilities and clinics, and date, problem and diagnosis of all medical examinations as specified in the contracts.

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E. Tests for Rental Assistance Programs (RAP) (Lot 17)

This Rental Assistance Program (RAP) assists adult shelter residents to make the transition from a shelter environment into independent living in permanent housing by providing rental subsidies and related social services.

1. Verify that the Provider is reporting the outcomes of the performance indicators to the Department on a monthly basis. These reports should include statistics on: Assessment, Placement in Permanent Housing, Employment Assistance and Achievement of Self-Sufficiency
2. Verify that the Provider is paying the appropriate rental subsidy each month to the landlord for each program participant, not to exceed \$300 a month.
3. Verify that the participant is paying at least 30% of their income for rent.
4. Verify that the Provider reports on a monthly basis: the number of apartments evaluated each month, the number of participants who moved in during the month, the number of participants who withdrew from the program or were discharged, total number of participants in apartments and number of intake interviews conducted.

Audit Protocols that verify financial information, client eligibility, and file maintenance are applicable to Adult **RAP**. These protocols are applicable to the Bridge To Home Program.

1. Financial Information

Verify that the contractor maintain files that contain the following:

- a. Copies of the monthly checks made out to the client's landlord.
- b. Monthly bank statements detailing RAP account activity, including reconciled statements for rental subsidy and start up/client fees/client move in cost accounts.
- c. Written bank authorization for DHS to access contractor's RAP account as needed.
- d. Copies of the written notification of proper signatories and bank locations sent to DHS.
- e. Written proof of bond.
- f. Monthly and/or quarterly statements of start-up cost, rental subsidies, administrative overhead and other expenses.
- g. Copies of all receipts and invoices required to justify program expenses.

2. Client Eligibility

Verify the client's eligibility by ascertaining the following documentation exists in the client's case files:

- a. Written confirmation that the client was approved by DHS at the time of F/RAP enrollment.

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- b. A copy of a pay stub, employer's letter or other documentation confirming that the client was employed when accepted into the program.
- c. A copy of a recent pay stub and/or other income documentation and calculation of the participant's 30% of income for rent payment figure.

3. File Maintenance

Verify that each client's case file contains the following documentation:

- a. A signed and dated RAP contract between client and contractor that includes.
- b. A clause requiring the client to pay at least 30% of income for rent.
- c. A statement indicating that the RAP subsidy will last for no more than 24 months.
- d. A clause indicating the participant's responsibilities.

F. Tests for Prevention Programs (Lot 18)
(Including Homebase Programs/HSP and Anti-Eviction)

• **Tests for the Prevention Homebase Programs**

The Homebase program offers homelessness prevention services through financial assistance, housing stabilization and relocation services. Upon assessing and identifying the needs and barriers to clients' housing stability, Homebase Providers develop a service plan with clients to maintain their housing stability and overcome the risks of homelessness. Services can include, but are not limited to, family and landlord mediation, benefits advocacy, employment and training, legal assistances, short-term financial assistance, and counseling. Clients can receive services for up to 18 consecutive/non-consecutive months. The goal of Homebase is to help clients build strong support networks in their communities and to prevent their entry into the shelter system.

1. Verify that a case record for each client is maintained. Verify that the contractor conducted an initial intake assessment to determine eligibility according to income guidelines and risk of homelessness. Aforementioned requirements may be met through an electronic record in the Agency's data application, paper document/s, and/or case note/s.
2. Verify that monthly expenditures are properly supported by original documentation, are in accordance with approved budget lines, and are submitted to DHS in a timely manner.
3. Verify all financial assistance is not made directly to a client (with the exception of Advantage Savers payments). Payments should be made to a third party recipient. Appropriate documentation must be provided to confirm the legitimacy of the third party recipient. DHS can provide exceptions on a case by case basis.

• **Test for Homelessness Prevention Law Project & Court-Based Homelessness Prevention Law Project Programs**

The Homelessness Prevention Law Project & Court-Based Homelessness Prevention Law Project provides legal and related services to assist low income families facing eviction or other

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potential loss of housing, remain housed and avoid becoming homeless and entering the City of New York's shelter system

1. Verify client records to document legal services provided by the contractor. All case files related to contract services must be clearly identifiable as the Homelessness Prevention Law Project/Court-Based Homelessness Prevention Project files.
2. Verify Contractor conducted an initial intake assessment to determine eligibility according to income guidelines and risk of homelessness. Contractors must document income, identity, and housing status (e.g. at risk of becoming homeless and entering New York City's shelter system).