

Testimony of

The Hon. Kathy Patterson
D.C. Auditor

Before the

Council of the District of Columbia
Committee of the Whole

Public Oversight Hearing
on

Contracting for the Homeless Services Continuum of Care

Monday, September 28, 2015

Council Chamber, John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Good morning Chairman Mendelson and members of the Council. Thank you for this opportunity to share preliminary findings of an ongoing audit of the management contract for homelessness services between the District's Department of Human Services and The Community Partnership for the Prevention of Homelessness. I am Kathy Patterson, D.C. Auditor, and am joined here today by Julie Lebowitz who is supervisory auditor on this project.

The Office of the D.C. Auditor was asked by Councilmember Mary Cheh to provide information on the organizations currently receiving District funding to provide services to homeless individuals and families. We issued a letter report earlier this year, entitled *Examination of Non-Governmental Organizations (NGOs) Receiving Local District Funds to Provide Homeless Services in fiscal year (FY) 2014*. Concerns highlighted in that review prompted us to initiate a compliance audit of the management contract with TCP, the larger of the two contracts between the District and the non-profit organization. The earlier report found that D.C. paid more than \$109 million in local funds to NGOs for homeless services in FY 2014, including what we referred to as an inappropriate overpayment of \$5 million in FY14 funds to TCP for services that were provided in FY 2015. Our examination raised concerns over the proportion of funds spent for program versus administrative costs, and the contractual relationship that essentially has had TCP as a prime contractor overseeing itself as a subcontractor. These and other issues are part of our audit now underway.

Immediately following the release of the letter report, we met with Deputy Mayor Brenda Donald and DHS Director Laura Zeilinger and expressed our commitment to work closely with the administration's leadership so that the compliance audit would be as useful as possible to the Bowser Administration. This is a comprehensive audit that is actually 23 individual audits of elements in the management contract. We are covering:

- The management contract relationship between DHS and TCP to assess whether DHS properly managed the contract and TCP complied with the contract terms.
- A sample of 12 NGO subcontractors. There are 68 services provided under the management contract and TCP provides 10 of those services. The audit team selected a sample of 12 from among the 58 other subcontractors. Our field work includes site visits, reviewing client folders, and testing to ensure the subcontractors are complying with the terms of their agreement and meeting their deliverables. The audit assesses whether TCP is properly managing the subcontractor agreements.
- All 10 services provided by TCP. Our testing of TCP's service provision includes ensuring that only expenses related to the program are charged to the program and the expenses are reasonable, comply with the program's policies and procedures, and that documentation exists to support the expenditures. This work is ongoing and covers:
 - Permanent supportive housing rents for families and singles, and permanent supportive housing one-time costs for families and singles which include security deposit, first month's rent, furniture and moving costs.
 - Rapid Rehousing program

- Short term leasing program
- Local rent supplement program
- DC General shelter

Once our fieldwork is completed we will hold a closeout meeting with TCP and DHS to discuss the findings. After the closeout meetings the audit team will draft the report, and the administration will have an opportunity to provide written comments. Our final report will include those comments, and we hope to have a final report to the Council by mid-December. I will touch briefly on some of the preliminary findings in our compliance audit.

We will be documenting specific issues in District government oversight of the TCP management contract, including the following:

- DHS has not enforced the contract requirement that TCP provide specific deliverables including a performance monitoring plan, contract compliance plan, monthly reports on implementation of the monitoring plan, solicitations of subcontractors, monthly reports on progress toward task completion and scope of service requirements, quarterly reports on single and families, and annual performance. As a result of not enforcing these requirements, the department has not been able to adequately monitor contractor performance, or approve invoices based on actual services delivered. For example, we found an instance where a subcontractor whose contract called for more than a dozen units of transitional beds with comprehensive case management had not provided the full range of services. DHS oversight should have been able to identify this shortcoming, but without requiring TCP to create and follow adequate plans for monitoring compliance, they did not have this information, and the subcontractor was paid the full subcontract amount.
- The DHS contract administrator did not receive adequate supervision and as a result did not manage the contract properly, as evidenced by the failure to require the deliverables just mentioned. The administrator did not require TCP to provide documentation for services billed, and the contractor performance evaluation form completed by the administrator for the TCP contract was brief, consisting of only four questions, and contained no supporting documentation. The evaluation stated that TCP “consistently met delivery dates” despite the lack of deliverables received, and documentation of receipt. Nevertheless, the DHS contract administrator received a 5 out of 5 rating on the annual performance review.
- DHS did not require TCP to adhere to contract terms that required competitive bidding for 10 services that TCP itself has both provided and managed without separate subcontracts. These include managing the shelter at D.C. General, rapid rehousing, permanent supportive housing, and “supplies, material and equipment.” The management contract states that “the contractor shall establish a competitive system for awarding subcontracts to providers that will provide for hypothermia services, emergency shelter, temporary shelter, transitional housing and a range of services to help transition residents to move toward self-sufficiency; and permanent housing.

The Contractor shall provide to the Contract administrator a copy of all solicitations requests.” These were not put out for bid, TCP provided the services at a cost of \$22 million (38.9% of the total cost of the management contract), as well as an 8% management fee for the services, or another \$1.8 million. Without competitive bidding the District cannot be certain it is getting best value for the expenditures. Without a subcontract with the government it is unclear what services are to be provided and at what cost. As examples, in the “supplies” category we identified \$15K spent on food for homeless individuals and \$40k spent on stipends for hypothermia season outside of hypothermia season.

- The DHS Office of Program Review, Monitoring and Investigation has not been effective in securing corrective actions and program improvements. Statute requires the office to conduct annual inspections of providers. While we found that the Office was conducting the reviews on an annual basis, the results were not sent to providers in a timely fashion. For example, the results of 4 of the 6 visit in our sample had not been sent, though the site visits occurred 4-12 months prior. As a result, two of the providers had deficiencies that were identified in the site visit, yet without the results being sent formally by DHS, the process for implementing and completing a corrective action plan was stalled.
- TCP has shared with us a 2015 monitoring plan that appears strong. During 2014, however – the time period covered by the audit -- there was inadequate monitoring of subcontractors. Of the 58 subcontracted providers, only 2 received site visits and there were no desk audits. While TCP tracked client outcomes, it did not track subcontractor compliance with the total number of clients to be served. At least two subcontractors were paid the full contract amount but did not fully deliver contracted services – in one instance we found that three units for homeless families were not utilized. We also found data quality issues at one shelter which had under-reported the number of clients served which could have been addressed by TCP monitoring.
- DHS has not required TCP to effectively monitor subcontractors in a variety of areas, including personnel charges. In seeking to identify the proportion of spending that directly impacts individuals and families who are homeless, we found various ways in which TCP could strengthen its oversight of subcontractor personnel spending. While TCP did have a process to approve provider’s staffing configurations, a majority of the subcontractors in our sample exceeded their approved amounts for a number of staff salaries. As a result, providers were permitted to exceed and/or to inaccurately portray their staffing costs.

Other shortcomings in oversight of TCP subcontractors:

- During our audit scope, TCP had no system in place for the process of ensuring that service providers adhere to program rules in compliance with the Homeless Services Reform Act. Service providers in some instances were using out-of-date program rules. Holding clients to rules that were out of date could subject the District to litigation.

- TCP allowed a number of subcontracts to exceed the 10% cap on indirect costs in violation of its own policies. This resulted in less funding available for direct services and also is viewed as unfair to the providers who kept within the 10% cap.
- As was the case with those services that TCP has provided itself, TCP has not competitively bid subcontracts. We have not yet received a schedule indicating when these services were last subjected to competition, though the management contract states that TCP shall establish a competitive system for awarding subcontracts to providers as a means of assuring the highest quality and value for the services.

This concludes my summary of some of our preliminary findings.

Mr. Chairman, you recently introduced procurement legislation that includes an effort to define what are “inherently governmental functions.” That exercise is relevant to our review of homeless expenditures – as well as our work on school modernization and the school food services program. In considering our preliminary findings and other testimony today on how best to address the issue of homelessness, I urge you and colleagues to think carefully about where the line should be drawn between what work is undertaken by private sector contractors and what responsibilities are retained by D.C. government agencies and personnel. I hope that the Council and the Mayor are able to collaboratively draw that line, going forward, in a manner that ensures maximum accountability for effective use of taxpayer funds.

Thank you and I am happy to respond to questions.